



# **SUSTAINABILITY** REPORT **2012**



## PROFILE

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Brazil's leading oil company Petrobras was founded in 1953 and is now a publicly traded business corporation. At end-2012, it was the world's seventh largest energy company in market cap terms according to consulting firm PFC Energy, and was ranked fifteenth by *Petroleum Intelligence Weekly* (PIW) based on market value and an analysis of six operational criteria.

In the oil, gas and energy industry, Petrobras operates on an integrated specialized basis in the following segments: exploration and production, refining, marketing, transportation, petrochemicals, oil product distribution, natural gas, electricity, chemical gas, and biofuels.

## MISSION

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Working safely and profitably, showing social and environmental responsibility, in the Brazilian and international markets, providing the right products and services for customer needs and contributing to development in Brazil and countries in which it operates.

## 2020 VISION

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We will be one of the world's top five integrated energy companies and the company of choice for our stakeholders.

## 2020 VISION ATTRIBUTES

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Our activity stands for:

- ▶ Strong international presence
- ▶ World reference in biofuels
- ▶ Operational excellence in management, energy efficiency, human resources and technology
- ▶ Profitability
- ▶ Reference for social and environmental responsibility
- ▶ Commitment to sustainable development

## VALUES

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- ▶ Sustainable development
- ▶ Integration
- ▶ Results
- ▶ Readiness for change
- ▶ Entrepreneurship and innovation
- ▶ Ethics and Transparency
- ▶ Respect for life
- ▶ Human diversity and cultural
- ▶ People
- ▶ Proud to be Petrobras

| OPERATIONAL SUMMARY  | 2011          | 2012          |
|--|---------------|---------------|
| <b>PROVEN RESERVES – SPE Criteria – (billions of barrels of oil equivalent – boe)<sup>(1)(2)</sup></b> | <b>16.4</b>   | <b>16.4</b>   |
| Oil and condensate (billions of barrels)   | 13.7          | 13.8          |
| Natural gas (billions of boe)  | 2.7           | 2.7           |
| <b>AVERAGE DAILY PRODUCTION (thousands of boe)<sup>(1)</sup></b>                                       | <b>2,621</b>  | <b>2,598</b>  |
| <b>Oil and LNG (thousands of bpd)</b>  | <b>2,169</b>  | <b>2,126</b>  |
| Land   | 301           | 297           |
| Sea  | 1,869         | 1,829         |
| <b>Natural gas (thousands of boe)</b>  | <b>452</b>    | <b>472</b>    |
| Land   | 195           | 193           |
| Sea  | 257           | 279           |
| <b>PRODUCING WELLS (oil and natural gas) - December 31<sup>(1)</sup></b>                               | <b>15,116</b> | <b>15,437</b> |
| Land   | 14,404        | 14,699        |
| Sea  | 712           | 738           |
| <b>DRILLING RIGS – December 31</b>   | <b>102</b>    | <b>109</b>    |
| Land   | 38            | 35            |
| Sea  | 64            | 74            |
| <b>PRODUCING PLATFORMS – December 31</b>   | <b>125</b>    | <b>137</b>    |
| Fixed  | 77            | 80            |
| Floating   | 48            | 57            |
| <b>PIPELINES (km) – December 31</b>  | <b>30,067</b> | <b>31,265</b> |
| Oil, oil products and other  | 15,435        | 16,333        |
| Natural gas  | 14,632        | 14,932        |
| <b>FLEET – December 31</b>   | <b>242</b>    | <b>237</b>    |
| Own operation  | 56            | 60            |
| Others' operation  | 186           | 177           |
| <b>TERMINALS – December 31<sup>(3)</sup></b>   |               |               |
| Quantity   | 48            | 48            |
| Storage capacity (millions of m <sup>3</sup> )   | 10.3          | 10.3          |
| <b>REFINERIES – December 31<sup>(1)(5)</sup></b>   |               |               |
| Quantity   | 15            | 15            |
| Nominal installed capacity (thousands of barrels per day - bpd)  | 2,244         | 2,249         |
| <b>Feedstock processed (thousands of barrels per day - bpd)</b>  | <b>1,990</b>  | <b>2,121</b>  |
| Brazil   | 1,816         | 1,944         |
| Other countries  | 174           | 177           |
| <b>Average daily production of oil products (thousands of barrels per day - bpd)</b>                   | <b>2,044</b>  | <b>2,189</b>  |
| Brazil   | 1,849         | 1,997         |
| Other countries  | 195           | 192           |
| <b>IMPORTS (thousands of barrels per day - bpd)</b>  | <b>749</b>    | <b>779</b>    |
| Oil  | 362           | 346           |
| Oil products   | 387           | 433           |
| <b>EXPORTS (thousands of barrels per day - bpd)</b>  | <b>652</b>    | <b>548</b>    |
| Oil  | 435           | 364           |
| Oil products   | 217           | 184           |
| <b>OIL PRODUCT SALES (thousand barrels per day - bpd)</b>  |               |               |
| Brazil   | 2,131         | 2,131         |
| <b>INTERNATIONAL SALES (thousand barrels per day - bpd)</b>  |               |               |
| Oil, gas and oil products  | 540           | 506           |
| <b>ORIGIN OF NATURAL GAS (millions of m<sup>3</sup> per day)<sup>(4)</sup></b>                         | <b>62</b>     | <b>75</b>     |
| Brazil   | 34            | 40            |
| Bolivia  | 27            | 27            |
| LNG  | 2             | 8             |
| <b>DESTINATION OF NATURAL GAS (millions of m<sup>3</sup> per day)<sup>(4)</sup></b>                    | <b>62</b>     | <b>75</b>     |
| Non-thermal  | 40            | 39            |
| Thermoelectric   | 11            | 23            |
| Refineries   | 9             | 10            |
| Fertilizers  | 3             | 3             |
| <b>ENERGY<sup>(1)</sup></b>  |               |               |
| Number of thermoelectric plants <sup>(5)(6)</sup>  | 17            | 18            |
| Installed capacity (MW) <sup>(5)(6)</sup>  | 6,466         | 6,235         |
| <b>FERTILIZERS<sup>(1)</sup></b>   | <b>2</b>      | <b>3</b>      |
| <b>SERVICE STATIONS</b>  | <b>8,356</b>  | <b>8,507</b>  |
| Brazil   | 7,485         | 7,641         |
| Other countries  | 871           | 866           |

(1) Includes non-Brazilian data for Petrobras equity in associates:

(2) Proven reserves measured using Society of Petroleum Engineers (SPE) criteria

(3) Transpetro terminals only

(4) Excludes burning, E&P own consumption, liquefaction and reinjection

(5) Assets with 50% of more holdings only

(6) Natural gas-fired thermoelectric plants only

| STATISTICS  |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|
| INDICATOR   | 2008    | 2009    | 2010    | 2011    | 2012    |
| <b>ENVIRONMENT</b>  |         |         |         |         |         |
| Oil and oil product spillages (m <sup>3</sup> )   | 436     | 254     | 668     | 234     | 387     |
| Energy consumption (terajoules – TJ)  | 604,333 | 604,070 | 716,673 | 682,827 | 936,199 |
| Greenhouse gas emissions (millions of tons of CO <sub>2</sub> equivalent)                               | 57.6    | 57.8    | 61.1    | 56.2    | 67.4    |
| Carbon dioxide emissions – CO <sub>2</sub> (millions of tons)   | 54      | 52      | 57      | 52      | 63      |
| Methane emissions – CH <sub>4</sub> (thousands of tons)   | 188     | 235     | 196     | 161     | 174     |
| Nitrous oxide emissions – N <sub>2</sub> O (tons)   | 1,215   | 1,241   | 1,360   | 1,753   | 1,945   |
| Atmospheric emissions – NO <sub>x</sub> (thousands of tons)   | 244.50  | 222.04  | 227.75  | 222.21  | 251.5   |
| Atmospheric emissions – SO <sub>x</sub> (thousands of tons)   | 141.79  | 135.39  | 133.73  | 120.64  | 116.3   |
| Other atmospheric emissions – particulate matter (thousands of tons)                                    | 16.71   | 19.30   | 17.51   | 17.48   | 18.2    |
| Freshwater withdrawal (millions of m <sup>3</sup> )   | 195.2   | 176.0   | 187.3   | 190.9   | 193.4   |
| Effluent discharge (millions of m <sup>3</sup> )  | 181     | 197     | 173     | 188     | 218     |
| <b>OCCUPATIONAL HEALTH AND SAFETY</b>   |         |         |         |         |         |
| Fatalities (employees and outsourcers)  | 18      | 7       | 10      | 16      | 13      |
| Fatal Accident Rate (fatalities per 100 million man-hours of risk exposure – employees and outsourcers) | 2.4     | 0.81    | 1.08    | 1.66    | 1.31    |
| Percentage time lost (employees only)   | 2.31    | 2.36    | 2.38    | 2.33    | 2.23    |
| <b>CONTRIBUTIONS TO SOCIETY</b>   |         |         |         |         |         |
| Investments in social projects (R\$ million)  | 225     | 174     | 199     | 207     | 201     |
| Investment in cultural projects (R\$ million)   | 207     | 155     | 170     | 182     | 189     |
| Investments in environmental projects (R\$ million)   | 54      | 94      | 258     | 172     | 101     |
| Investments in sports projects (R\$ million)  | 69      | 42      | 81      | 80      | 61      |

| CONSOLIDATED FINANCIAL DATA   | 2010    | 2011    | 2012    |
|---|---------|---------|---------|
| Sales revenues (R\$ million)  | 211,842 | 244,176 | 281,379 |
| Profit before financial result, equity earnings and taxes (R\$ million) | 46,394  | 45,403  | 32,397  |
| Earnings per share (R\$)  | 3.57    | 2.55    | 1.62    |
| Net Income (R\$ million)  | 35,189  | 33,110  | 20,959  |
| EBITDA (R\$ million)  | 59,391  | 61,968  | 53,242  |
| Net indebtedness (R\$ million)  | 61,007  | 103,022 | 147,817 |
| Investments (R\$ million)   | 76,411  | 72,546  | 84,137  |
| Gross Margin  | 36%     | 32%     | 25%     |
| Operating margin  | 22%     | 19%     | 12%     |
| Net margin  | 17%     | 14%     | 8%      |

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# Message from our President

Ladies and gentlemen,

We posted R\$ 21.2 billion net profit in 2012. This result was 36% lower than 2011 due to higher imports of oil products at higher prices; currency depreciation, which impacts both our financial results and our operating costs; higher non-recurring expenses, such as charged off dry wells; and oil production, which although within the target range set by the 2012-2016 Business and Management Plan, totaled 1.98 million bpd in Brazil, and was 2% below 2011.

Production of oil products reached 1,997 million bpd to show an increase of 5% on 2011, due to higher operating efficiency of our refineries, which reported record daily processing totals. Average utilization of refining capacity was 96%, thus avoiding higher import requirements. The natural gas market grew to a volume of 74.9 million m<sup>3</sup> per day, 22% higher than in 2011 due to supplying thermoelectric plants. Demand rose to 89.4 million m<sup>3</sup> per day in the last quarter of 2012, with record daily generation (5,883 MW on November 26) and delivery of domestic gas (49.6 million m<sup>3</sup> per day on October 11), which reduced the need for LNG imports and Bolivian gas.

Thus, despite adversities met with in 2012, I wish to reiterate my unwavering belief in the company's medium and long-term prospects. This administration recognizes that material difficulties have arisen and we have been working constantly to overcome them. After an extensive and detailed diagnosis of our operational problems, we have defined priorities and we are taking short and medium-term structural measures to improve financial results. These measures include programs for Opex Optimization (Procop), Campos Basin Operational Efficiency (Proef), Divestment (Prodesin) and Logistics Infrastructure Optimization (Infralog). Their targets and indicators were set by task teams and approved by our Executive Board, to be closely monitored by our senior management.

Positive results have begun to appear in metrics. Through our efficiency program (Proef), we were able to reverse the sharp decline in efficiency of the Campos Basin operating unit, which hit a low of 67% in April 2012, when the program began, and bounced back to 78% in December. Our opex effort (Procop) introduced 515 cost cutting initiatives that will lead to R\$ 32 billion in savings from 2013 through 2016. Infralog rationalized our portfolio of projects relating to ports, airports, pipelines, and terminals to handle production and marketing of oil and oil products predicted by 2020.

These new processes are now part of our daily routine and language. I would highlight the Executive Board meetings now held twice a week and its focus on physical and financial monitoring of our investment projects. Also in the course of 2012, we made important alterations to the organization of several of the company's business areas, boosting their efficiency and introducing

substantial administrative changes. We recognize that only relentless pursuit of efficiency will enable us to achieve real perennial progress reflected in the company's profitability. That is the objective management is pursuing.

In matters of workplace safety, health of our professionals and respect for the environment, we will be working toward zero accidents, spills, sick time, and deaths at work. In 2012, we set up a working group to survey all company-related spills or leaks and show best practices for avoiding them. We wish to reaffirm the immense value we attach to life and the environment.

In 2012, we were proud to be official sponsors of the United Nations Conference on Sustainable Development, Rio+20. During the event, we were able to participate in discussions and joint initiatives to build habits and values consistent with sustainability. We also reaffirm our commitment to following the principles of the United Nations Organization's Global Compact, to increasingly pursue and disseminate best practices for human rights, labor standards, environment and anti-corruption measures.

In 2013, oil production will be at the same level as 2012 because we have a major concentration of platforms scheduling stoppages in the first half of the year. However, six new platforms will be coming on stream in the Sapinhoá, Baúna and Piracaba, Lula Nordeste, Papa-Terra and Roncador fields, thus helping to boost production in the second half-year, and providing support for significant increase in production expected for 2014. We will be maintaining the pace of investment at an estimated R\$ 97.6 billion, largely allocated to explore and produce oil and natural gas in Brazil.

Together with the board and its leaders, I am determined to consolidate the process of improving the company's management. Based on transparency and pragmatism, we shall continue to harness all our knowledge and efforts to reach our Business and Management Plan targets, which will be reflected in added value for our shareholders, investors and other stakeholders.

**Maria das Graças Silva Foster**  
President

# About the report

The Sustainability Report is produced annually to inform our stakeholders of corporate performance and strategy in relation to sustainable development. It is also used in the management of our activities to evaluate our performance and identify opportunities for improvement. This publication presents data for January 1 – December 31, 2012 and succeeds the 2011 Sustainability Report. In the case of forward looking estimates and projections, however, the information is not limited to base year 2012. An example is the use of the 2013-2017 Business and Management Plan.

## PARAMETERS

In preparing the 2012 Sustainability Report and defining its scope and principles, we used the Global Reporting Initiative (GRI), the world's leading framework setting parameters for reports of this nature. We have adopted version 3.1 of these guidelines, including the oil and gas sector supplement (OGSS) issued in February.

The publication also meets legal requirements and commitments we have assumed, such as ISO 26000 guidelines for communicating social responsibility. Our participation in the United Nations Global Compact means that we have to submit regular reports on progress in relation to the entity's ten principles, as we have done in this publication.+

The report's digital version presents its full content, including all indicators, while the printed version prioritizes the most relevant information due to physical restrictions. All data disclosed has been independently verified by PwC.+

Except for the inclusion of sector-specific indicators, there have been no significant changes in scope or coverage from the report's previous version. Some time-series values may differ from those published in the previous edition, in which case appropriate explanations as to current data or altered methodologies are provided. When necessary, calculation techniques used to respond to some indicators are also shown.

## MATERIALITY

To define the key themes addressed in this report, we held meetings and conducted interviews with our stakeholders and ascertained their opinions on issues related to sustainability in the ambit of our operations. By comparing perceptions from these groups with those of the company itself, from a list of 33 subjects, we selected the ten most relevant for this publication, known as "material themes".

+

For more details,  
see "Corporate  
Governance".

+

The Independent  
Auditors' Limited  
Assurance Report  
is available in  
the Portuguese  
version of the 2012  
Sustainability  
Report.

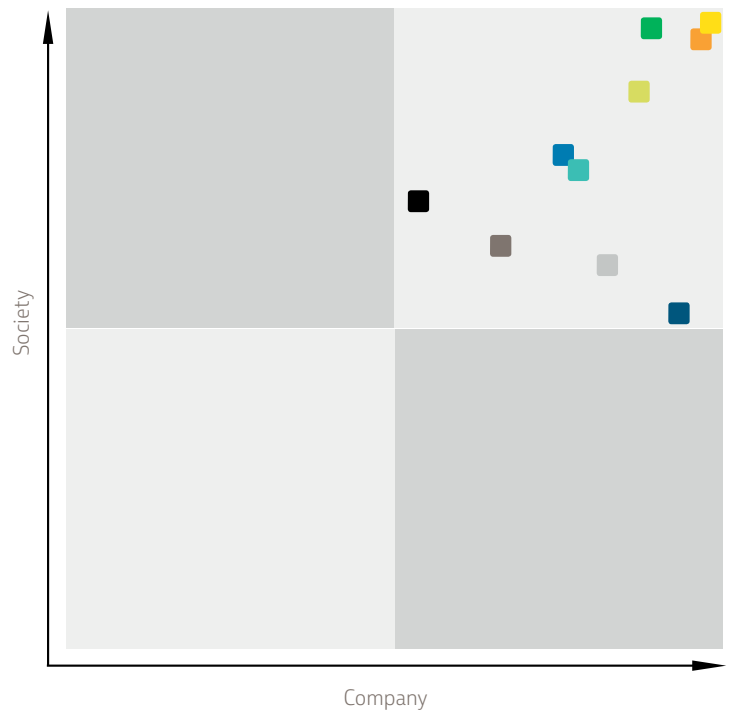


For this edition, we used the same selection as the 2011 Sustainability Report since we believe that the views of our stakeholders and our strategic orientation have not changed significantly from one year to the next. Moreover, the two-year period facilitates measures taken to improve management of the themes addressed, which adds to the quality of the report. Themes not ranked as material may gain importance in the publication, due to their relevance to corporate management or in public debates in the reference year.

Certain themes such as “Anti-corruption mechanisms”, “Risk management” and “Occupational health and safety” are shown in specific sections. Others are approached transversely as a reflection of their shared management between different corporate and business areas, as in the case of “Transparency in communicating with stakeholders.”

In this process of defining themes, we listened to some of our executives and 190 representatives from 11 of our stakeholders: customers, consumers, the scientific and academic community, neighborhood communities, suppliers, the press, investors, civil-society organizations, partners, government, and employees. Our report then focused communication on segments identified by the main readers of the publication.

|   |   |
|---|---|
|   | Prevention of accidents and spills/leaks, emergency plans and impact mitigation |
|  | Climate change and greenhouse gas emissions                                     |
|  | Risk management   |
|  | Research and development  |
|  | Dialogue and engagement with communities  |
|  | Occupational health and safety  |
|  | Pre-salt layer basins – management, policy and feasibility                      |
|  | Transparent communication with stakeholders                                     |
|  | Anti-corruption mechanisms  |
|  | Diversification of energy sources   |



## COVERAGE

Data in this report refer to our activities in Brazil and internationally, directly or through subsidiaries and controlled companies. Exceptions are shown together with a definition of limit of scope used.

We prioritized reporting the projects and initiatives of Petróleo Brasileiro S.A. (Petrobras), Petrobras Distribuidora, Petrobras Transporte S.A. (Transpetro), Petrobras Química S.A. (Petroquisa), Petrobras Biocombustível, Liquigás and Stratara and subsidiaries operating units in countries other than Brazil, due to the significant size of these companies or their activities.

### LEGENDS USED IN THE REPORT

- ▶ Additional comments or information: alongside the text, there are indications of where to find more data on the subject;
- ▶ UN Global Compact icons: state which sections show progress on each of the initiative's ten principles;
- ▶ GRI index: shows where indicators are reported that refer to aspects of profile and economic, environmental and social performance, including information on ways of managing the latter, in addition to specific indicators for the oil and gas sector. The printed version of the report does not contain a detailed index.

### CONTACT US

Send comments, questions, suggestions and criticisms of our Sustainability Report to email address [rs2012@petrobras.com.br](mailto:rs2012@petrobras.com.br). Your contributions will help to make content increasingly fit readers' needs and demands.

# CORPORATE PERFORMANCE

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## Profile

Petróleo Brasileiro S.A. (Petrobras) was incorporated in Brazil on October 3, 1953. We are based in Rio de Janeiro but we have a presence in 25 countries covering every continent, and we operate in every state of Brazil.

As a publicly-traded company whose majority shareholder is the Brazilian government, our shares are traded on leading stock exchanges worldwide. Directly or through our subsidiaries, affiliates and controlled companies (collectively referred to as “Petrobras System”), we operate in the oil, natural gas and energy industry on an integrated basis.

We are Brazil’s industry leader and our business ventures include prospecting, drilling, exploration and production, refining, processing, marketing, distribution and transportation of oil (from wells, shale and other rocks) and oil products, natural gas and other fluid hydrocarbons, electricity, biofuels and other renewable sources, as well as activities related to all forms of energy and other related or similar sources.



## PRODUCTS AND SERVICES

We offer various products and services to meet the demands of society, retailers, industries and other customers, operating in road transport, agricultural, aviation, water transport, thermoelectric and industrial markets.

We have interests in companies producing (from naphtha, a raw material for the petrochemical industry derived from petroleum) basic petrochemicals (ethylene, propylene, benzene, etc.) and raw materials for second generation industries manufacturing other products (plastics, rubber, etc.), used by leading industries making articles for consumers (packaging, tires, paint, etc.).

| Product line                  | Main products   |
|-------------------------------|---|
| Automotive and road transport | Common Gasoline, Premium Gasoline (Podium), Super Gasoline (Supra Adivivada), Diesel, Premium Diesel (Podium), Extra Diesel with Additives, Common Diesel S-10, Extra Diesel with Additives S-10, Compressed Natural Gas (CNG), Lubrax, Lubricants, Petrobras Flua (Liquid Reducing Agent, Arla-32), Biodiesel, Ethanol, Evolua Line. |
| Industrial and thermoelectric | Add Cleaner (fuel oil), Diesel Oil, Oil Coke, Industrial Lubricating Greases, Lighting Kerosene, Industrial Natural Gas, Solvents, Paraffin, Lubrax Industrial, Sulfur, Kerosene, Liquefied Petroleum Gas (LPG), Fuel Oils, Glycerin, Castor Oil.   |
| Petrochemical industry        | Sulfur, Specialty Chemicals, Special Fluids, Vegetable Oils, Process Oils, Paraffin, Supply Products, Kerosene, Solvents, Urea, Propylene, Naphtha.   |
| Domestic                      | Residential Natural Gas and LPG.  |
| Aviation                      | Lubrax Aviation, BR Jet Plus, BR Aviation Care, Aviation Gasoline, Aviation Kerosene.   |
| Railroad                      | Diesel Oil, Railroad Lubricants.  |
| Nautical                      | Marine Diesel Oil and Diesel Verana.  |
| Waterway                      | Bunker, Marbrax.  |
| Agribusiness                  | Urea, Urea Fertilizer, Reforce N, Sulfur, Agricultural Spraying Oil, Ammonia, Soybean Meal and Castor Cake.   |
| Asphalt                       | Priming Emulsion, Petroleum Diluted Asphalt (ADP), Asphalt Emulsion, Asphalt Rubber, Petroleum Asphalt Cement (CAP).  |
| Maritime                      | Diesel oil, Marine Diesel Oil (for small boats), Marine Lubricants.   |
| Fleets                        | Diesel Oil, Lubricants.   |
| SERVICES                      | PRINCIPAL SERVICES  |
| Automotive                    | <i>De Olho no Combustível</i> [Fuel watch], Lubrax+, Lubrax Center, Siga Bem [vehicle monitoring], Service Station Locator, "Lavamania" [wash-craze], Total Fleet Control (CTF), Highway Driver Support Program.  |
| Road transport                | Advanced Inspection Service Center (CAIS), Total Fleet Control (CTF), Lubrication, Lubricant Analysis, Supply, Services for Fluids, Fuel Analysis, Petrobras Technical Assistance for proper use of our products.   |
| Aviation                      | Supplies, Additives, BR Aviation Auto Center, BR Aviation Card, BR Aviation Center, BR Aviation Club, Tank Services, Espaço BR Aviation and Quality Assurance.  |
| Asphalt                       | On-site Cold Recycling, Asphalt Slurry, Cold Asphalt Micro Coating, Cold Pre-mixed, Surface Treatments.   |
| Energy                        | Climatization, Energy Diagnosis, Identification of Potential for Reducing Energy Consumption, Identification of Best Solution for Chilled Water, Retrofit Climatization Installations, Peak-Hour Energy Generation, and Automation Systems.   |
| Industrial and thermoelectric | Lubrication, Supply, Lubricant Analysis, Lubrax Express, Fuel Analysis, Lubrax System, Lubrax Matic, Fluid Services, Environmental Services.  |
| Petrochemical industry        | Environmental, Logistics, Fluid Formulation and Application (drilling, completion), Services Associated with Treatment Processes (oil, water and gas).  |
| Shipping/Maritime             | Lubrax System, Supply, Installation and Maintenance of Tanks, Pumps and Filters, Lubrication, Supplies.   |
| Locomotive                    | Supply and Lubrication.   |
| Convenience                   | BR Mania Stores.  |
| Relationship                  | Petrobras Card.   |



**MARKETS SERVED**

We have a presence in 25 countries, including Brazil, on five continents. In three of these countries (China, the UK, and Singapore), we have representative offices only, not operations.

We are involved in exploration and production in 18 countries, gas and power in 4, refining and petrochemicals in 4, and distribution and marketing in 7.

We also have business with several companies in Brazil and other countries, and cooperation agreements with various partners to develop technologies and business ventures.

|                          |                          |                |
|--------------------------|--------------------------|----------------|
| EXPLORATION & PRODUCTION | DISTRIBUTION / MARKETING | REPRESENTATION |
| REFINING / PETROCHEMICAL | BIOFUELS                 | GAS & POWER    |
|                          |                          | MAIN OFFICE    |

## BRAZILIAN MARKET

An International Energy Agency report on world perspectives for energy shows Brazil poised to become the fastest growing oil producing country outside the Middle East. In one scenario, Brazil's total oil production reaches 4 million barrels per day (bpd) in 2020 and continues rising to 5.7 million bpd in 2035, while natural gas production per day reaches 32 billion m<sup>3</sup> and 87 billion m<sup>3</sup>, respectively.

The report also predicts a high growth of biofuel consumption in Brazil from 0.3 million barrels of oil equivalent per day (boepd) in 2010 to 0.9 million bpd in 2035. Brazil may well continue to be the country with the largest share of renewable energies concentrated in road transport, at 37% of total consumption in 2035. This estimate is related to the broader adoption of flex-fuel vehicles using both gasoline and ethanol.

The Brazilian domestic market accounted for about 72% of our total volume sales in 2012.

We operate our subsidiaries, associates and controlled companies in the Brazilian market on an integrated basis. We offer products and services to consumers in general, distributors and road transport, agricultural, industrial, aviation, water transport and thermoelectric markets. We also supply electricity to Brazil's National Grid.

In the Brazilian market, diesel is the product that accounts for the highest percentage of our sales volume with 937,000 barrels per day in 2012 (34.4% of total), followed by gasoline with 570,000 barrels per day (20.9 % of total).

Our distribution division, Petrobras Distribuidora [Distributor], has over 12,000 large customers including industrial companies, thermoelectric plants, airlines, and light and heavy vehicle fleets. It supplies the network of service stations and the consumer market. Our service station network sells fuel derived from petroleum, lubricants, compressed natural gas and biofuels, and convenience products. It also delivers aggregated services. The network is the domestic fuel market leader with a 38.1% share in 2012, and it comprises 7,641 service stations.

Through associate companies and Gaspetro controlled companies, we supply the industrial, commercial, residential and vehicle segments.

Transpetro is our subsidiary in the transportation and storage segment, handling oil, oil products, natural gas and biofuels. Its main customer is Petrobras, but also provides services to various distributors and the petrochemicals industry. It operates over 14,000 kilometers of oil and gas pipelines and is present in every region of Brazil, in more than 700 communities in 19 states and the Federal District. Transpetro has 48 terminals (20 land and 28 waterway) and 60 ships. Its gas processing capacity is 19.7 million m<sup>3</sup>/day and it has storage for 10.3 million m<sup>3</sup> of light and heavy oil. Outside Brazil, Transpetro operates through Fronape International Company.

We market and sell biodiesel in Brazil through auctions held by the National Petroleum, Natural Gas and Biofuels Agency (ANP). We allocate biofuel produced in our plants to the Northeast (79%) and Southeast (20%) regions. In Bahia and São Paulo, we supply castor oil to retailers and companies using the product as a raw material; castor cake for retailers in North and Northeast Brazil, and sunflower oil for the food industry in Southeast and South Brazil. We also ship soybean to biodiesel and food sectors in the states of Rio Grande do Sul and Minas Gerais; soybean meal for retailers and the food industry in Southeast Brazil, and sunflower meal for retailers in São Paulo. We supply glycerin to domestic (44%) and external markets (56%). We also market refining sludge and fatty acid in the Brazilian market.







## Corporate Governance

We are constantly hone our corporate governance practices and management tools. As a publicly traded company in Brazil, we follow the rules of the Brazilian Securities and Exchange Commission (CVM) and BM&FBovespa. In other countries, we comply with the rules of the Securities and Exchange Commission (SEC) and the NYSE, in the United States; Latibex – Madrid Stock Exchanges, in Spain; and the Argentinean Securities Commission (CNV) and Buenos Aires Stock Exchange, in Argentina.

Our management procedures are compatible with the requirements of the markets in which we operate to ensure the adoption of international standards of transparency. In addition to Brazil's Law of Corporations (Law 6404, 1976), by which we are governed, we fulfill the standards required by Sarbanes-Oxley (SOx) and use other business guidelines such as the Petrobras System Ethics Code, the Good Practices code, the Code of Conduct of the Senior Administration, the Code of Competitive Conduct and our Corporate Governance Guidelines.

## ORGANIZATIONAL STRUCTURE

Our organizational structure consists of Strategic and Corporate Services, Finance, Engineering, and Technology and Materials, and four Business Areas: Exploration & Production, Downstream, Gas & Power, and International. The first three Business Areas may be structured by operational units, while the International business area may incorporate foreign companies aligned line with our organizational and management model to develop and operate our core business.

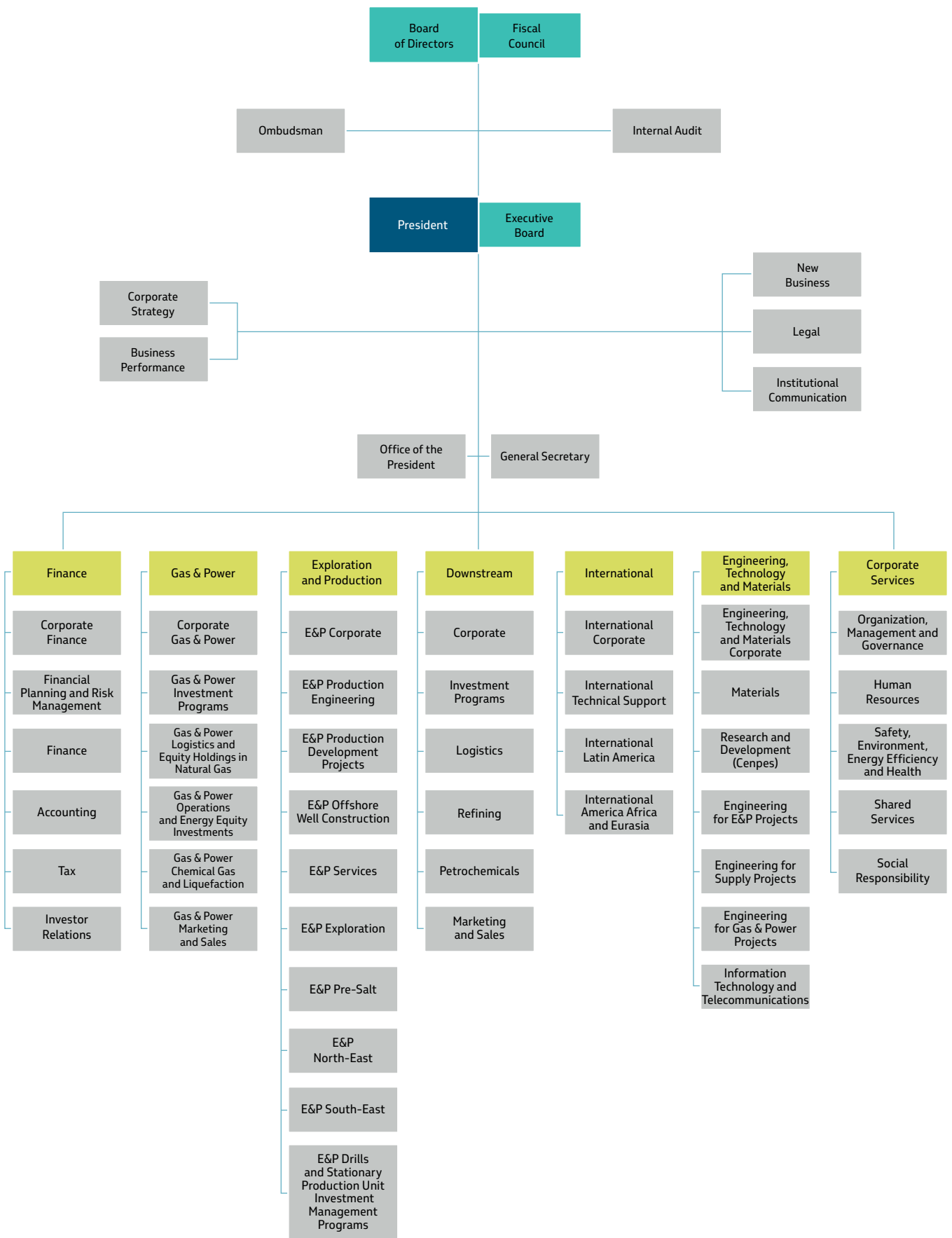
|                                   |   |
|-----------------------------------|---|
| <b>EXPLORATION AND PRODUCTION</b> | Exploration, development of production and oil production, liquid natural gas (LNG) and natural gas in Brazil. Primarily supplies Brazilian refineries and serves the domestic and foreign markets with surplus petroleum and byproducts from our natural gas processing plants.  |
| <b>DOWNSTREAM</b>                 | Refining, logistics, transportation and marketing petroleum products, exporting ethanol and shale extraction and processing, in addition to interests in petrochemical companies in Brazil. Produces high quality oil to guarantee supplies of products essential to everyday life for the entire community.                          |
| <b>GAS &amp; POWER</b>            | Transportation and marketing for natural gas produced in Brazil or imported, transportation and marketing of liquefied natural gas (LNG), generating and marketing electricity, and holding equity in natural-gas transport and distribution companies, and in thermoelectric plants in Brazil, also running our fertilizer business. |
| <b>INTERNATIONAL</b>              | Oil and gas exploration and production, gas and power downstream and distribution in several countries in the Americas, Africa, Europe, Asia and Oceania.   |

## PETROBRAS SYSTEM COMPANIES

Petrobras System members: Petróleo Brasileiro S.A. (Petrobras), its subsidiaries, controlled, jointly controlled and associated companies and joint ventures. Most of our services are concentrated in the operational activities of the principal companies:

- ▶ Petróleo Brasileiro S.A. (Petrobras);
- ▶ Petrobras Distribuidora S.A.;
- ▶ Petrobras Transporte S.A. (Transpetro);
- ▶ Petrobras Biocombustível S.A.;
- ▶ Liquigás Distribuidora S.A.;
- ▶ Petrobras Gás S.A. (Gaspetro);
- ▶ Petrobras Energia S.A. (Pesa);
- ▶ Petrobras Colômbia LTD (PEC);
- ▶ Petrobras America Inc. (PAI);
- ▶ Petrobras Bolívia S.A. (PEB).

# PETROBRAS – OVERALL ORGANIZATION



December 31, 2012.

## ALTERATIONS IN OUR STRUCTURE

In 2012, in alignment with our Strategic Plan, we made the following alterations to our organizational structure:

- ▶ We set up the Corporate and Services Area; the former Corporate Area became Strategic Area, and the former Services Area became Engineering, Technology and Materials (ETM). Through these alterations, we rearranged units in contact with the president, this enabling more focus on our business matters, and allowing our head of ETM to focus on technology management activities and developments;
- ▶ We set up a structure in the president's office, in E&P, in Downstream and Gas & Power, to meet our commitments to local content and coordinate internal and external measures related to Brazil's Oil and Natural Gas Mobilization Program (local acronym Prominp);
- ▶ We set up a structure in our Ombudsman department to comply with the new law on access to information; +
- ▶ We set up a Social Responsibility department (executive management) to strengthen the function, standardize operations and develop mechanisms to control the efficiency and efficacy of social responsibility projects;
- ▶ We introduced an Investment Management Program for Drills and Stationary Production Units under Exploration and Production, enabling greater control of monitoring and implementation of major E&P projects (drills, onshore facilities, stationary production units and pipelines);
- ▶ In place of the Engineering department (executive management) we set up Materials Engineering, Technology and Corporate Materials; Engineering for Downstream Projects; Engineering for Exploration and Production Projects; and Engineering for Gas & Power Projects, focusing on planning, cost management, and performance in implementing our projects;
- ▶ We centralize our investment and divestment activities in the New Business executive management, creating five temporary general management positions for our divestment program, aimed at generating funds for our Business and Management Plan. We wound up our executive management of Business Development department of the International Area and made adjustments in units related to these activities in our other business areas.

**+**  
For more details,  
see the Transparency  
and Accountability  
chapter

## CORPORATE GOVERNANCE MODEL



Our corporate governance structure comprises the board of directors and its three committees (Audit; Remuneration and Succession; and Environment), Executive Committee, Fiscal Council, Internal Audit, Ombudsman, Business Committee and Integration Committees.

- ▶ **Board of directors:** overall guiding and directing the company, comprising of ten elected members – nine by shareholders and an employee representative – four of whom are independent.
- ▶ **Committees of the board of directors:** three committees (Audit, Environment and Compensation & Succession), composed of three members, whose objective is to assist the board through providing analysis and recommendations on specific issues.
- ▶ **Executive Board:** comprising the president and seven directors elected by the board of directors.
- ▶ **Fiscal Council:** a standing body consisting of five members, also elected at general meetings, who are charged with overseeing management's acts and examining financial statements, among other duties.
- ▶ **Internal Audit:** plans, executes and evaluates internal audit activities and responds to requests from senior management and external control bodies. We also have outside auditors selected by the board of directors, who are barred from providing consulting or advisory services during the contractual period.
- ▶ **Ombudsman:** reporting directly to the Board of Directors, accepts and handles submissions from our stakeholders, and coordinates transparency and anti-corruption related measures.
- ▶ **Business Committee:** consisting of members of the Executive Board, its role is to compile analyses and reports for the executive board on corporate matters that involve more than one area, and those whose importance and materiality require extensive discussion.
- ▶ **Integration Committees:** consisting of executive managers, functions forums for analysis and in-depth examination of specific-scope issues. Divided into Segment Committees (E&P; Downstream; and Gas & Power) and Corporate Committees (Corporate Functions; Finance; and Engineering, Technology and Materials). Commissions attached to each committee act as additional discussion forums.

### BOARD OF DIRECTORS

Our board of directors is charged with providing overall guidance and management for Petrobras. One of its tasks is to deliberate on the basic organizational plan and the election or removal of members of the executive board. Its responsibilities include setting the overall course for our business, defining our mission, strategic objectives and guidelines, and approving the strategic plan, with multi-year and yearly spending and investment programs.

Our corporate governance guidelines state that the board of directors must be active in the defense of all shareholders interests. At ordinary or extraordinary general meetings, shareholders may present and formalize their statements and opinions about our activities.

The board consists of ten members elected by annual general meetings for one-year mandates, who may be reelected, seven representatives of the controlling shareholder, one representative of the minority common shareholders, one representative of preferred shareholders, and one employee representative. For the first time, an employee representative was elected to our board of directors in 2012. An electoral commission consisting of Petrobras and union representatives on a parity basis ensured the process was conducted transparently and democratically. Having active employees on boards of directors of public-sector companies and mixed private-public companies and their subsidiaries and controlled companies is required under Law 12,353 of 2010. Electing the representative means that employees are participating in our strategic decisions.

Since 1999, the president has been a member with no executive functions or any other ties to Petrobras. Only one of the board members – the company's president – has executive functions.

To make the rules even clearer, our board of directors revised internal regulations for its committees in 2012.

Ongoing training programs for managers of the companies comprising the Petrobras system emphasize the dissemination of best corporate governance practices adopted in Brazil and in the countries where we are present. These programs aim to strengthen commitment to the principles of transparency and social responsibility, which are part of our identity.

Another important step was developing a unique database containing our disclosure policies and guidelines for managers of companies comprising the Petrobras System and their workforce.

**FOR THE FIRST  
TIME, AN EMPLOYEE  
REPRESENTATIVE  
WAS ELECTED TO  
OUR BOARD OF  
DIRECTORS IN 2012.**

## MEMBER PROFILE

Our board members are elected by general meetings without influence from the Executive Board. Corporate Governance Guidelines state qualifications and experience expected of our board members in general.

Candidate members must meet the following requirements: personal integrity, absence of conflicts of interest, having time available, motivation, alignment with our values and knowledge of best practices in corporate governance. Our bylaws do not stipulate quotas or specific conditions for the composition of our Board. According to Corporate Governance Guidelines, we must look for diversity in relation to experience, qualifications, and knowledge, to enrich our decisions.

## EXECUTIVE BOARD

Manage our business through our Executive Board, in accordance with the mission, objectives, strategies and guidelines set by the Board of Directors. Our Executive Board consists of a chairman and seven directors, elected by the Board of Directors for three-year mandates, with the possibility of reelection. They may be removed at any time. Of the members of our Executive Board, only the president is a member of the Board of Directors.

## FISCAL COUNCIL

The role of our fiscal council is to stand in for and represent our shareholders, monitoring the acts of our senior managers and our budgetary, financial and asset management.

This is a standing body consisting of up to five members and their respective alternates, elected by general meetings. One represents minority shareholders, one holders of preferred shares, and three are representatives of federal authorities (one designated by the Minister of Finance as representative of the Treasury). The mandate is for one year and reelection is allowed.

## COMMITTEES

The purpose of the Board of Directors Committees is to assist the Board by providing analyses and recommendations in relation to specific matters that require in-depth examination. There are three committees, each consisting exclusively of members of the Board of Directors: Audit, Environment and Remuneration and Succession. These Committees have powers and rules approved by the Board of Directors as stated in their respective bylaws and conforming to our Corporate Governance Guidelines.

Our Business Committee acts as a forum for integrating material strategic issues, to foster alignment between the development of our business, our management and the guidelines of our Strategic Plan. This committee analyzes matters involving more than one of our segments or Business Area, as well as those whose importance and relevance require broader based debate, and it reports to our executive board. The Business Committee's powers and rules are stated in our bylaws.

Integration Committees act as forums for analysis and in-depth study of issues within its scope, and it may assist with structuring information to be submitted to the Business Committee and to the Executive Board. Our Integration Committees are divided into: Segment Committees (E&P, Downstream and Gas & Power) and Corporate Committees (Corporate Functions; Finance; Engineering, Technology and Materials). The Integration Committees' powers and rules are stated in their respective Internal Regulations.



## EXECUTIVE COMPENSATION

Our compensation practices and recognition of our officers reflect responsibility, time spent on tasks, competence and professional reputation, and practices applied by the market for companies of similar size to ours.

Compensation for officers of Petróleo Brasileiro S.A. (Petrobras) in 2012 amounted to R\$ 11.5 million, which in December had seven members of its Executive Board and ten on the Board of Directors. We note that the president of the company was appointed by the Board of Directors to be our International Officer too.

## BUSINESS DRIVERS

Our management procedures are compatible with the requirements of the markets in which we operate in order to ensure the adoption of international standards for transparency. In addition to Brazil's Law of Corporations (Law 6404, 1976), by which Petrobras is governed, we also comply with standards required by Sarbanes-Oxley (SOx) and use business drivers as Bylaws, Code of Ethics, Corporate Governance Guidelines, Code of Conduct and Good Practices for Competition. Additionally, we have policies for Health and Safety and the Environment (SMS), Human Resources, Social Responsibility, Corporate Practice, New Business Development, Capital Discipline, Communication and Tax Management and Business Security Principles.



## BYLAWS AND CODES

Our Bylaws, based on Brazil's Law of Corporations, establishes the nature of our society and define our goals, economic activities, social capital, shares and shareholders. This document also deals with relations with our subsidiaries and associates, our employees, board of directors and fiscal council, and general meetings, among other topics.

Our Code of Ethics defines our ethical principles and commitments to conduct as the guiding principle for our actions. It was prepared with the participation of our workforce, our various business areas, investors, communities, suppliers, customers and competitors.

The Code of Practice brings together internal policies that have significant impact on our governance and economic performance: Disclosure of Material Acts or Facts; Trading in Securities; Conduct of Petrobras Officers and Members of its Senior Management; Referrals for Management Positions in Subsidiaries, Controlled Companies and Associates; and Investor Relations.

Our Code of Competitive Conduct embodies our commitment to strict compliance with Brazilian defense of competition or antitrust legislation and those of jurisdictions of the countries in which we do business.





## OUR POLICIES

Our policies offer strategic guidance and their formulation is based on values we adopt.

▶ **Social Responsibility Policy** – Defines social responsibility as integrated, ethical, and transparent management of business and activities and relations with all stakeholders, upholding human rights and citizenship, respecting human and cultural diversity, rejecting discrimination, degrading labor, child labor, or slave labor, contributing to sustainable development and reducing social inequality.

▶ **Safety, Environment and Health Policy** – Guides safety, environmental, energy efficiency and health activities. Covers topics such as workforce education, training and engagement, identification, monitoring and control of risks, impacts and benefits of projects, ventures and products throughout their life cycle for their economic, environmental and social aspects, and eco-efficiency for operations and products. The policy may be broken down into 15 guidelines, when detailed to state various requirements. These include risk assessment and risk, community relations, analysis of accidents and incidents, contingency and product management.

▶ **Human Resources Policy** – Brings together guidelines in order to ensure alignment of the Human Resources function with the development of its activities. It covers topics such as attraction and retention, development, culture and climate, recognition of results reached by teams and individuals, fostering management practices and processes that lead to satisfaction and engagement at work and the ongoing process of negotiation with trade unions representing employees. The policy consists of seven items, which may be divided into detailed guidelines.

▶ **Corporate Communication Policies** – States the principles that guide our communication practices and relations with our stakeholders at all levels. Deals with issues such as preservation and defense of our brand and corporate identity; integration and unity in communication; transparency and dialogue in communication and relations with stakeholders; structured knowledge of the needs and expectations of stakeholders; open and comprehensive communication with our internal public and respect for human and cultural diversity.

## RULES AND STANDARDS

Our business operations with our subsidiaries, controlled companies, special purpose entities and associates are conducted at market prices and conditions (arm's length basis). In addition to the rules of the Brazilian Securities and Exchange Commission (CVM) and the Stock Exchange, Commodities and Futures Exchange (BM&FBovespa), we follow Sarbanes-Oxley (SOx) guidelines in granting and revising credit to our customers. Once analyzed, credits are approved by credit committees or at a higher level, the chief financial officer together with head of customer contact. The volume of credit has been growing every year in line with our expansion and permitting increased sales with the lowest possible risk, especially in other countries.

The process of controlling and granting credit utilization, locally and internationally, is centralized and constantly enhanced to support the performance of commercial activity. This enables us to build closer relations with customers and expand the use of credit as a sales instrument. The annual certification process is structured in three stages: evaluation of entity-level controls to diagnose corporate governance environment; self-assessment, by managers, of the design of business processes and internal controls; and tests of these controls by Internal Audit.











On Bovespa, our shares are part of three indices: Bovespa (Ibovespa), Brazil (IBrX) and Brazil 50 (IBrX50). On the New York Stock Exchange, our American Depositary Receipts (ADRs) are part of the NYSE International 100 Index and NYSE World Leaders Index. Through Petrobras Energia Participaciones S.A., we are listed on the NYSE Energy Index.

## GLOBAL COMPACT

In conducting our business, we have adopted the principles of the United Nations Global Compact, so we are voluntarily committed to upholding and reporting our performance in terms of the principles of human rights, labor relations, the environment and anti-corruption. We have been Global Compact signatories since 2003 and been on its international council since 2006. In 2012, we ended a two-year term chairing the Global Compact's Brazilian Committee and we were elected as the initiative's vice chair in Brazil for the 2013/2014 mandate.

Outside Brazil, we took part in Global Compact local networks in the following countries: Argentina, Bolivia, Chile, Colombia, the United States, Japan, Mexico, Nigeria, Paraguay, Peru, Portugal, Turkey and Uruguay.

### THE GLOBAL COMPACT SETS FORTH TEN PRINCIPLES:

- |   |   |   |   |   |  |   |   |   |  |
|---|---|---|---|---|--|---|---|---|--|
|   | <b>1</b> RESPECT and support for internationally recognized human rights in our area of influence |   | <b>2</b> ENSURE the company is not involved in violations of human rights                               |   | <b>3</b> UPHOLD freedom of association and recognize the right to collective bargaining            |   | <b>4</b> ELIMINATE all forms of forced or compulsory labor                                |   | <b>5</b> EFFECTIVELY eradicate all forms of child labor in our supply chain          |
|  | <b>6</b> ENCOURAGE practices that eliminate any kind of discrimination in employment              |  | <b>7</b> TAKE A precautionary, responsible and proactive stance in relation to environmental challenges |  | <b>8</b> DEVELOP initiatives and practices to promote and disseminate environmental responsibility |  | <b>9</b> ENCOURAGE the development and diffusion of environmentally friendly technologies |  | <b>10</b> FIGHT against corruption in all its forms, including extortion and bribery |



## COMMITMENTS SIGNED

In addition to codes and policies, our actions are carried out in accordance with the commitments made. In the management of social responsibility, we adopt the principles of international standard ISO 26000 and distribute the latter for our employees.

In relation to diversity issues, including gender and race, we emphasize the Women's Empowerment Principles of the UN, and the Pro-Gender and Race Equity of the Secretariat of Policies for Women of the Presidency of Brazil. In February, we signed a memorandum of understanding with the Department for the Promotion of Racial Equality (Seppir) on joint strategies for strengthening affirmative action, racial equality and combating racism.

In fighting corruption, we maintain our commitments with the Joint Initiative Against Corruption (PACI), the Extractive Industries Transparency Initiative (EITI) and the Business Pact for Integrity and Against Corruption.

We reiterate our support for the promotion and dissemination of the rights of children and adolescents. In addition to being signatories of the Declaration of Corporate Commitment to Combat Sexual Violence against Children and Adolescents and recognized as a Child-Friendly Company by Fundação Abrinq, we signed a cooperation agreement with the Department for Children to support the dissemination of the rights of children and adolescents, in Paraguay.

Also noteworthy are the following commitments: Declaration of the G8 Roundtable on Climate Change; National Pact for the Eradication of Slave Labor; adherence to the guidelines of the National Energy Plan 2030 and the National Plan for Energy Efficiency, to use energy efficiently and cleanly; Declaration of Companies Committed to Fight HIV/AIDS, in Argentina.

## **PARTICIPATION IN FORUMS AND ENTITIES**

We participate in several forums, councils and associations in Brazil and other countries that are specifically for the oil and gas sector or related to sustainability issues and challenges.

Among the sector-wide initiatives, we would note our participation in the Regional Association of Oil and Natural Gas Companies in Latin America and the Caribbean (Arpel) and the Global Oil and Gas Industry Association for Environmental and Social Affairs (Ipieca). The membership of these organizations includes several oil and gas companies coming together for discussion and promotion of best practices relating to issues such as climate change, biodiversity, human rights and spill response.

We also take part in national or local associations active in the sector, such as the Brazilian Institute of Oil, Gas and Biofuels (IBP), whose management board we chair; the Argentine Oil and Gas Institute, Oil Industry Chamber and the Hydrocarbon Producing Companies Chamber in Argentina; the Bolivian Hydrocarbons and Energy Chamber in Bolivia; the Colombian Petroleum Association and the Colombian Association of Petroleum Engineers in Colombia; the Texan Oil and Gas Association in the United States; the National Mining, Petroleum and Energy Society in Peru.

Petrobras is a member of the World Business Council for Sustainable Development (WBCSD) and the Brazilian Business Council for Sustainable Development (CEBDS), as initiatives fostering the integration of sustainability principles with business. In December, we began our participation in the pilot program of the International Integrated Reporting Council (IIRC), responsible for creating a globally accepted model for preparing integrated reports.

# Strategy

Our commitment to sustainable development is seen in our Corporate Strategy for the sustainability factors (profitability, integrated growth and social and environmental responsibility) that are considered in our strategic decisions and our analysis of corporate business performance.

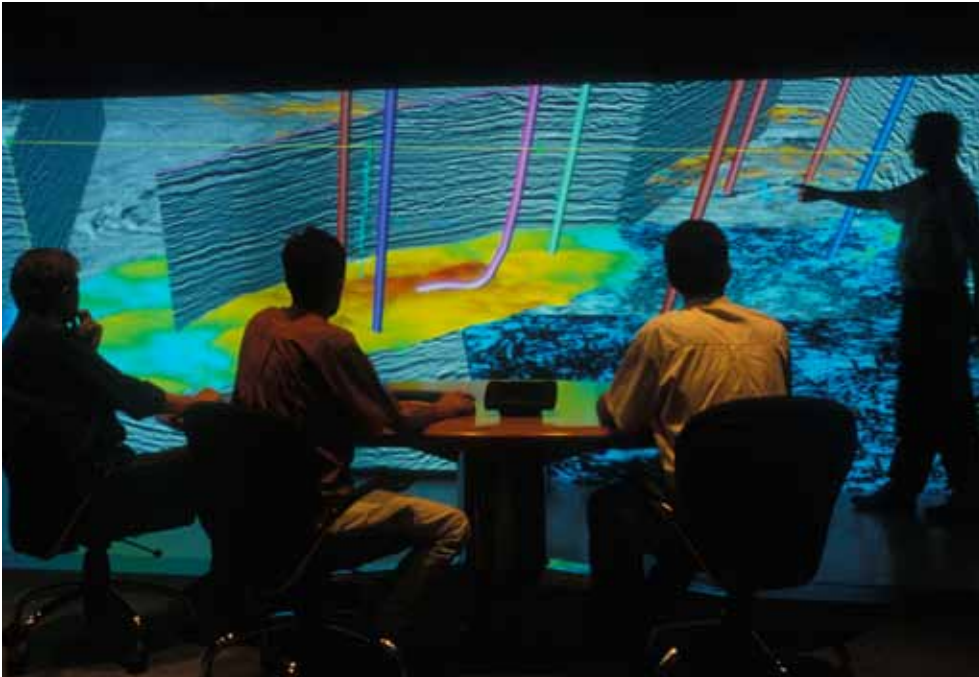
Based on each of the above factors, we set economic-financial, social and environmental targets and plan initiatives at corporate level that have ramifications in various areas.

| COMMITMENT TO SUSTAINABLE DEVELOPMENT |  |   |  |   |   |
|---------------------------------------|--|---|--|---|---|
| Sustainability Factors                | Integrated growth  | Profitability   |  | Social and environmental responsibility   |   |
| Corporate Strategy Summary            | Expand operations in target markets for petroleum, oil products, petrochemicals, gas and power, biofuels and distribution. Set global benchmark as an integrated energy company              |   |  |   |   |
| Business Segment Pillars              | <b>E&amp;P</b><br>Expand oil and gas production and reserves on a sustainable basis and be recognized for excellence in E&P, positioning Petrobras among the world's top five oil producers. | <b>Downstream (RTC) and Distribution</b><br>Expand Brazilian refining, ensuring national supplies and leadership in distribution, developing export markets for surplus oil produced in Brazil. | <b>Gas, Power and Chemical-Gas</b><br>Consolidate leadership in the Brazilian natural gas market, with international operations, and expand electricity and chemical-gas business, particularly fertilizers. | <b>Petrochemicals</b><br>Be active in petrochemicals on an integrated basis with the other Petrobras System businesses. | <b>Biofuels</b><br>Operate in Brazil and abroad in the biofuels segment on an integrated and sustainable basis with the Petrobras System. |
| Competencies and Resources Base       | Operational excellence in management, energy efficiency, human resources and technology.   |   |  |   |   |

Our investment portfolio involves 947 projects and US\$ 236.7 billion in investments for the 2013-2017 period. We will invest 62.3% of this amount (US\$ 147.5 billion) in Brazil's exploration and production segment. In addition to rigs, platforms and vessels for maritime activities, our projects include new refineries, new fertilizer plants, biofuel plants, electricity generating plants, LNG regasification units, and expanding logistics structure to serve the growing oil and gas market.

In addition to goals and objectives related to production and financial viability, our strategy incorporates challenges in areas such as management of local content in our projects, contributing to the development of Brazilian industry and employment, vocational training, research and development in new technologies, and health, safety and environment issues such as control of greenhouse gas emissions, boosting energy efficiency and reducing accident rates.





## BUSINESS AND MANAGEMENT PLAN

Our Business Plan has been renamed “Business and Management Plan” with the adoption of the document for the 2012-2016 period reiterating out increasing focus on project management and internal governance processes. Approved by the Board of Directors in March 2013, the 2013-2017 Business and Management Plan includes investments US\$ 236.7 billion, maintaining the same level of investment as the previous Plan.

The Business and Management Plan is based on integrated management of our project portfolio to tap synergies across our assets; capital discipline for business expansion with solid financial indicators; priority for oil and natural gas exploration and production projects in Brazil; fulfillment and alignment of physical and financial targets for each project; and emphasis on safety and the environment.

In addition, the 2013-2017 Business and Management Plan is also based on maintaining oil and natural gas production targets; not including new projects, except for oil and natural gas exploration and production in Brazil; incorporating results from the 2012-2016 Business and Management Plan’s structuring programs and new programs such as the Logistics Infrastructure Optimization program (Infralog) and the Well Cost Reduction program; and expanding the scope of the Divestment Program (Prodesin).

The 2013-2017 Business and Management Plan maintains the project-management principle using the systematic of dividing projects in four phases by maturity. Our portfolio of projects now underway involves a total of US\$ 207.1 billion and includes all contractually committed Phase IV projects and all E&P projects in Brazil. The portfolio of projects under assessment involves US\$ 29.6 billion and includes those from other segments that are currently rated as Phase I (identification of opportunity), II (conceptual project) and III (basic project), which will be migrated to the portfolio of projects underway if their technical and economic feasibility is confirmed (Phase III approval).

After analyzing the 2013-2017 Business and Management Plan's portfolio, we decided to maintain the 2012-2016 plan's projects without including or excluding new projects in the "underway" portfolio, except cases of exploration and production in Brazil, where this was done in order to meet planned production targets. Some projects were brought forward or postponed for the same reason.

All projects in the Business and Management Plan include monitoring the "S" curves that show their physical and financial progress. Based on the analysis of these curves, projections are made and tracked by the Executive Board on a monthly basis, to provide support and materialize targets set by the plan.

Their financeability assumptions are maintaining investment grade, not issuing new shares, converging with international oil prices, and divesting in Brazil and internationally. Projects now underway will be financed by operating cash flows (US\$ 164.7 billion), use of surplus cash (US\$ 10.7 billion), financial restructuring and divestment (US\$ 9.9 billion) and funding (US\$ 61.3 billion gross and US\$ 21.4 billion net).

## SCENARIOS

The first stage of our strategic planning process is to build scenarios that identify opportunities and threats in the external environment and define the macroeconomic, pricing and market assumptions used by the business segments to prepare their financial and operational projections. Based on these predictions, we evaluate the financeability of the Business and Management Plan and the sensitivity of our investment portfolio.

The reference scenario for the 2013-2017 Business and Management Plan is marked by gradual resumption of growth as of 2010, with no major changes in the way the world economy is organized. There is an absence of global coordination on the economic and environmental levels, and a stop-and-go trajectory (successive periods of growth acceleration and deceleration). Some countries and regions are taking isolated measures to adopt more sustainable standards, but more consistent initiatives in this direction are not widespread.

In 2012, in addition to economic-financial and corporate governance challenges, social and environmental issues were included among the key critical uncertainties in the scenarios to be watched, in order to weight the influence of social and environmental risks on financeability, to take one example. Scenarios also had to include aspects associated with social responsibility, and specific issues were examined and monitored.

**IN 2012, IN ADDITION TO ECONOMIC-FINANCIAL AND CORPORATE GOVERNANCE CHALLENGES, SOCIAL AND ENVIRONMENTAL ISSUES WERE INCLUDED AMONG THE KEY CRITICAL UNCERTAINTIES IN THE SCENARIOS TO BE WATCHED.**



## PLANNED INVESTMENTS

Our investment in Exploration and Production in Brazil will amount to US\$ 147.5 billion, which is US\$ 15.9 billion more than for the 2012-2016 Business and Management Plan. The increase is primarily due to the inclusion of investments for 2017 at levels consistent with the acceleration of production planned for 2016-2020. Of the total investment, 73% will be allocated to develop production, 16% to exploration, and 11% to infrastructure. Investments in pre-salt fields and onerous transfer correspond to 68% of the total amount invested to develop production. In addition, executing 2013-2017 Business and Management Plan projects will require investments from partner companies of around US\$ 39.7 billion in exploration and production in Brazil.

Our portfolio of projects now underway stipulates investments of US\$ 43.2 billion in Downstream, the main projects being the Abreu e Lima refinery and the first phase of the Rio de Janeiro Petrochemical Complex (Comperj). There was a reduction of US\$ 12.6 billion from the 2012-2016 Business and Management Plan due to the conclusion of quality assurance and conversion projects and the completion refineries under construction through 2016. Investments to expand refining capacity in the "projects under assessment" portfolio progressed to the mature phase of elaborating their projects. They are now being optimized to ensure alignment with international metrics.

US\$ 9.9 billion will be allocated to the Gas & Power segment, including US\$ 5.9 billion to conclude projects now underway, in particular the Três Lagoas fertilizer plant (MS) and the Baixada Fluminense thermoelectric plant (RJ).

The Distribution business has investments underway totaling US\$ 2.9 billion, in particular logistics projects aimed at maintaining market leadership and building up its share of the automotive segment. Our Biofuels business area is due to invest US\$ 1.1 billion in projects now underway, distributing resources between biodiesel and ethanol projects.

On the international level, we will be investing US\$ 3.2 billion in the portfolio of projects now underway, and stepping up our Exploration and Production investments, which will account for 90% of this amount.

| INVESTMENT BY SEGMENT – 2013-2017 Business Plan |              |            |
|---|--------------|------------|
| (US\$ billion)                                  | INVESTMENT   | %          |
| E&P   | 147.5        | 62         |
| Downstream                                      | 64.8         | 27         |
| Gas & Power                                     | 9.9          | 4          |
| International                                   | 5.1          | 2          |
| Petrobras Biocombustível                        | 2.9          | 1          |
| Petrobras Distribuidora                         | 3.2          | 1          |
| ETM*  | 2.3          | 1          |
| Other areas**                                   | 1.0          | 0.4        |
| <b>Total to be invested</b>                     | <b>236.7</b> | <b>100</b> |

\* Engineering, Technology and Materials.

\*\* Financial, Strategic and Corporate Services.

## BUSINESS PLAN MANAGEMENT ACTIONS

The 2013-2017 Business and Management Plan will continue the structuring initiatives we started in 2012 under the previous Business and Management Plan, and will include new initiatives totaling five programs as its basis that will contribute to increased profitability. For the 2013-2017 period, there was an increase in scope of the Divestment Program (Prodesin), and we included the Logistics Infrastructure Optimization Program (Infralog) and Well Cost Reduction Program.

▶ **Operational Efficiency Program (Proef) for the Campos and Rio de Janeiro basins:** raise oil supply reliability curve, improving operational efficiency and the integrity of older production systems in the Campos basin, while minimizing risk of lowered efficiency for more recent systems.

▶ **Opex Optimization Program (Procop):** within the Business and Management Plan timeframe, boost cash flows and productivity while strengthening the management model for excellence in costs, with a R\$ 32 billion target for savings in operating expenses (opex) in the 2013-2016 period.

▶ **Divestment Program (Prodesin):** obtain funds for Business and Management Plan financeability from sales of assets in Brazil and other countries, with an expected cash inflow of US\$ 9.9 billion, mostly in 2013.

▶ **Logistics Infrastructure Optimization Program (Infralog):** planning on an integrated basis to monitor and manage projects and actions to meet our logistics infrastructure needs by 2020. By using simpler logistics solutions and exploiting synergies across business areas a reduction in investment totaling US\$ 2.2 billion was incorporated into the 2013-2017 Business and Management Plan.

▶ **Well Cost Reduction Program (PRC-Poço):** reduce unit costs of wells (capex), optimize scopes of projects and productivity gains through 23 initiatives, due to the significant increase in the fleet of rigs operating and the significance of wells in the exploration and production budget for 2013-2017 (38%). As a result of initiatives related to faster well construction and optimized operational sequencing, we identified US\$ 1.4 billion in gains to incorporate in the 2013-2017 Business and Management Plan.



## Risk Management

We have structured mechanisms to map and monitor the different types of risks that may impact our results as well as those associated with possible impacts of our work for customers, society in general, and the environment. Among others, we manage market, operational, environmental, physical, regulatory, credit and reputation risks.

At the corporate level, we have developed scenarios to monitor and raise issues that pose a high degree of complexity for the business, or may do so in the future, the probability of their occurring and the impact of each of them. Systematic monitoring and review, when necessary, of economic, social and environmental indicators also contributes to risk management and control.

Financial risk management on an integrated basis is the responsibility of the Financial Integration Committee, comprising executive managers from strategic areas. In relation to these risks, we prioritize measures based on proper management of capital and indebtedness. In order to hedge results from physical loads traded on the international market, we use derivatives (futures, swaps, and options). Nevertheless, we are exposed to fluctuating exchange rates and interest rates, such as in oil and oil product markets (market risk), which may adversely affect the value of our assets and liabilities, profits and cash flows.

In our analyses prior to acquiring a new business, we use a method in which the need to identify risks is expressed as follows: possibility of increased indebtedness, market concentration, need or opportunity to develop additional knowledge, linkage to a company with reputation problems that may harm our relationships with stakeholders, among others. In this case, various business areas are asked to provide opinions during the deal assessment phase.

## ACCIDENT PREVENTION



We adopt rigorous internal standards and operating procedures to prevent accidents and control risk, as well as complying with Brazilian and international safety standards for our facilities and transport onshore and offshore. We have plans in place for emergency response, individual emergencies, and oil spill emergencies.

All Petrobras offshore drilling units are equipped with well monitoring and safety systems and may be shut down immediately in an emergency. Gas detectors are distributed on platforms, and there are volume pressure increase alarms inside wells, with systems for preparing and injecting fluids into them to act as safety barriers. Teams working on platforms are certified by the International Association of Drilling Contractors (IADC).

Oil and gas companies have mobilized together to ensure risk control and mitigation of impacts of major proportions, especially after the 2010 Gulf of Mexico accident, which was a milestone in contingency management on a global scale.

We are associated with Clean Caribbean & Americas and with Oil Spill Response Limited (OSRL), as organizations that specialize in providing complementary resources for effective oil-spill responses and operate on a global scale. In 2012, OSRL acquired the assets of Clean Caribbean&Americas to become one of the world's largest oil-spill response companies. We also worked together with others in the industry to develop two engineering solutions for well control that stand out among the most modern in the world, which will be under the management of OSRL.

## EMERGENCY PLANS

We ran 51 emergency response simulation exercises, one on an international scale and the others regional or corporate, which, when necessary, involved the Brazilian Navy, Civil Defense, Fire Department, Police, environmental agencies, municipal governments, and local communities.

Our emergency response apparatus includes 10 Environmental Protection Centers, 13 outposts and Emergency Response Centers spread over more than 20 cities in Brazil. The aim is to ensure maximum protection for our operations in the event of an emergency, providing operational and logistical support and complementing local emergency plans. Our response centers work to international standards and are positioned at strategic points to serve our operations.

Environmental Protection Centers are equipped with boats, vessels, high and medium flow oil collection equipment, contention and absorption barriers, as well as communications equipment and vehicles that can quickly be moved by road or air to combat emergencies anywhere in Brazil. In addition, some 20 trained and certified operators are on 24-hour standby at each center.

| EMERGENCY RESPONSE STRUCTURE        | 2011                             | 2012 <sup>(1)</sup>              |
|-------------------------------------|----------------------------------|----------------------------------|
| Large oil collecting vessels        | 30                               | 41                               |
| Support vessels                     | 130                              | 263                              |
| Contention barriers                 | 150,000 meters                   | 196,000 meters                   |
| Absorption barriers                 | 120,000 meters                   | 190,000 meters                   |
| Oil skimmers                        | 400                              | 532                              |
| Chemical dispersants                | 200,000 liters                   | 235,000 liters                   |
| Environmental Defense Centers (EDC) | 10                               | 10                               |
| EDC Outposts                        | 13                               | 13                               |
| Emergency Response Centers          | In more than 20 cities in Brazil | In more than 20 cities in Brazil |

(1) January, 2013.

In the United States, contingency system measures have been tightened up particularly in relation to clear roles and responsibilities, structure and training to respond to different emergency scenarios. Petrobras America Inc. successfully ran simulations required by the Bureau of Safety and Environmental Enforcement (BSEE) in January and December.

## ENVIRONMENTAL RISKS

Our environmental risk management prioritizes an integrated approach and impact risk assessments for new ventures for major alterations of facilities. Similarly, our concept development stage for new products includes analysis of potential human health and environmental risks.



All oil refined in Brazil was processed by refineries certified for ISO 14001 (environmental management) and OHSAS 18001 (health and safety management). In addition, units are assessed through internal procedures for adherence of their safety and environment management systems to 15 corporate health and safety guidelines. They also carry out the Environmental Risk Prevention Program.





**WE ARE COMMITTED  
TO EXAMINING THE  
POTENTIAL IMPACT  
OF OUR ACTIVITY  
ON CLIMATE CHANGE  
AND TO INITIATIVES  
THAT MITIGATE  
ITS EFFECTS.**

Members of our workforce are strongly encouraged to take a preventive approach. They are advised to halt a procedure in execution if they have any doubts as to its possible effects on safety, the environment or health. In 2012, in addition to being constantly explained in speeches made by senior management and members of the management team, this approach was the core internal communication message for our Safety Week campaign, which is held across the entire Petrobras System every year.

In alignment with the principles of precaution and prevention, we are committed to taking effective measures to prevent serious or irreversible damage to the environment or to human health, and we look at the long-term benefits of our actions, even if there is no scientific consensus on the issue. In the same way, we are committed to examining the potential impact of our activity on climate change and to initiatives that mitigate its effects.

## **INSURANCE**

By arranging insurance, risks that may cause significant damage to our activities are transferred to the insurance market, as is the case for risks that are compulsorily insured under legal or contractual provisions. Although we assume a significant portion of risks, deductibles may reach US\$ 80 million. In 2012, the final premium for our main policies (operational and oil risks) totaled US\$ 97 million for a period of 18 months and the value of assets insured was US\$ 142 billion.

Given the investments posed in the 2013-2017 Business and Management Plan, we are expecting a significant increase in the volume of premiums paid to cover the risks of new ventures, for which we are preparing by taking out two more extensive policies covering engineering risks for onshore and offshore projects.

Refineries, platforms and other facilities are covered by operational and oil risk policies. Cargo movement is protected by transportation policies, and vessels by hull and engine insurance. There are also specific policies for civil liability and environmental pollution. Most of our pipelines are on Brazilian territory, and risks related to loss of earnings caused by an incident and well control are not insured given the relationship between low probability of occurrence and high cost of insurance. There are exceptions, however, in cases of requirements in contracts with business partners.

When arranging insurance, assets are valued based on their replacement cost. The maximum coverage of the operational risk policy is US\$ 1.4 billion. In the case of the oil risk policy, the limit reaches US\$ 2 billion and corresponds to the higher replacement value of our platforms.

## INTERNAL CONTROLS

We have concluded certifications of internal controls for FY 2011 in Petrobras and Petrobras Argentina, in compliance with Sarbanes-Oxley (SOx) and the Brazilian Securities Commission (CVM) guidelines. As in previous years, our consolidated financial statements have been certified without qualification by independent auditors.

Certifications cover the main processes of the Petrobras System. Annual audits are divided into three steps: assessment of entity-level controls to diagnose the corporate governance environment; self-assessment by managers of the design of business processes and internal controls; and tests of said controls by Internal Audit. The supervision of the work is responsibility of Board of Directors' Audit Committee and the Finance Department's Corporate Committees.

## CREDIT

Due to the economic crisis that has severely affected several countries in recent years, our credit volume saw contraction in 2012 after rising every year until the present. Our policy for granting and reviewing credit to our customers follows Sarbanes-Oxley (SOx) guidelines. Credit limits are analyzed and then approved by credit committees or higher instances.

We centralize control of credit take-up in Brazil and internationally, and we are constantly improving processes to control and authorize credit in order to support stable performance of commercial activity. This enables us to build closer relations with customers and expand the use of credit as a sales instrument.



## Our stakeholders

We define our stakeholders as groups of individuals or organizations with common needs and social, political, economic, environmental or cultural aspects that are building relationships with us, or may do so, and who may influence or be influenced by our activities, business and reputation.

The Petrobras Integrated Communication Plan (PIC) identifies and defines our stakeholders. Strategic stakeholders may be defined for each context using scientifically based assessment and knowledge of demands, expectations and opinions of each stakeholder and the degree of dependence, participation and influence in each ambit of our operations.

In addition to posing the stakeholder concept and this classification, the Integrated Communication Plan covers brand positioning, corporate identity attributes and strategic communication objectives, based on a diagnosis that combines our business objectives with information from surveys of stakeholders of interest. Our Integrated Communication Plan is developed for the various countries in which we operate, in light of the predetermined context and the nature of our business in these locations.



## PETROBRAS STAKEHOLDERS

There are 13 categories of stakeholders: customers; scientific and academic community; communities; competitors; consumers; suppliers; press; investors; civil society organizations; partners; government; internal public; and retailers. This classification helps us in assessing relationships and guiding our efforts in light of their individual needs. Based on this content, each of our areas may identify categories of stakeholders with whom they relate, learn about their key segments and guide their activities for each of them.

### STAKEHOLDER CATEGORIES DEFINED

- ▶ **Customers:** legal entities that may acquire or purchase Petrobras goods and/or services for distribution purposes or for their own use.
- ▶ **Scientific and academic community:** bodies and institutions dedicated to the promotion and/or development of scientific research and education in areas of knowledge of interest to Petrobras, as well as faculty and students involved.
- ▶ **Communities:** groups of individuals who live in or frequent geographical areas in which Petrobras operates.
- ▶ **Competitors:** companies that compete or may compete with Petrobras in its business segments and markets for goods, services or capital.
- ▶ **Consumers:** individuals who may acquire or purchase Petrobras-brand goods and/or services for their own use.
- ▶ **Suppliers:** individuals or entities that provide goods and/or services to Petrobras.
- ▶ **Press:** media vehicles that cover topics of interest to Petrobras and act as channels to stakeholders.
- ▶ **Investors:** individuals or entities that own or have the potential to acquire Petrobras securities and/or act as brokers for their purchase.
- ▶ **Civil society organizations:** organizations set up as nonprofits to advocate or promote causes of interest for Petrobras and/or its stakeholders.
- ▶ **Partners:** organizations or individuals that establish formal relations of cooperation, investment or mutual support with Petrobras for business and/or institutional projects and/or programs.
- ▶ **Government:** institutions and bodies that exercise legislative, executive or judicial functions in countries and regions where Petrobras is active, as well as organizations that work within the ambit of global governance.
- ▶ **Internal public:** employees and retirees, families and pensioners, directors, apprentices and trainees of Petrobras and its subsidiaries, as well as employees of service providers working at Petrobras facilities.
- ▶ **Retailers:** companies retailing Petrobras-branded goods and/or services.

## COMMUNICATION AND RELATIONSHIP



We develop practices for communication and engagement with stakeholders based on research tools such as focus groups, interviews and questionnaires, face-to-face, by telephone, or over the internet. Techniques are adopted depending on the nature of the segment studied and the type of data – quantitative or qualitative – we are expecting to obtain.

### RESEARCH TOOLS

To direct our communication with segments with whom we relate, or those who intend to relate to us, we use research tools that afford in-depth knowledge of image and reputation issues relevant to various stakeholders and public opinion. This allows us to assess impacts, risks and opportunities for us and our relationship network.

We use periodic surveys – Corporate Image Monitoring System (Sismico), RepTrak™ (Reputation Tracking) and Corporate Sustainability Monitoring – which, in addition to providing the basis for the construction of communication diagnostics and annual review of the Integrated Communication Plan, provide indicators to assess the extent to which communication objectives are achieved.

- ▶ **Corporate Image Monitoring System (Sismico):** based on methodology developed for Petrobras, used to measure and monitor the evolution of our image. Consolidates information from quantitative surveys of public opinion and various stakeholders and generates cross-comparable image indicators. Sismico surveys cover public opinion (with a specific version for “Consumers”) and the following communities, suppliers, investors, press, employees (also referred to as our “internal public” segment), and NGOs (referred to as the “civil society organizations” segment). Within NGOs, we distinguish partner NGOs (also part of the “partners” segment).
- ▶ **RepTrak™:** developed by the Reputation Institute, this is an international methodology used to measure of an organization’s corporate reputation. We use two annual surveys based on the methodology known as Global RepTrak™ Pulse and RepTrak™ Deep Dive. This provides an overview of the reputation of the world’s largest companies in their countries of origin and enables us to assess our reputation compared with those of other companies. RepTrak™ surveys are conducted with representatives of public opinion.
- ▶ **Corporate Sustainability Monitoring (RSC):** developed by the Market Analysis Research Institute, this surveys enables us to observe the comprehension, attitude and expectations of public opinion in a given country in relation to corporate sustainability. It provides annual rankings of the companies most recalled for their social responsibility or for inappropriate attitudes. The methodology is applied with a focus on public opinion.

WE USE RESEARCH TOOLS THAT AFFORD IN-DEPTH KNOWLEDGE OF IMAGE AND REPUTATION ISSUES.

▶ **Strategic Alignment Monitor (RepTrak™ Alignment Monitor):** was developed by the Reputation Institute to measure employee alignment with our corporate strategies, based on gauging their levels of knowledge, understanding, and attitude in relation to these strategies. After conducting pilot projects in previous years, we used this methodology in all our areas and units for the first time in 2012. Strategic Alignment Monitor surveys our employees (also referred to as our “internal public” segment).

Some areas of our subsidiaries have their own instruments for consultation, research or engagement with specific stakeholders, such as Downstream area and Petrobras Distribuidora. In specific situations, we survey certain segments such as customers, the scientific and academic community, competitors, government or retailers.

In addition, we have developed specific tools to focus on perceptions of our Business and Management Plan, and the relevance of topics such as Health, Safety and Environment, brand valuation, consumer profile and market segmentation. All these studies underpin the development of communication plans and projects, especially those directly related to the Integrated Communication Plan (ICP) as part of our annual Action Plan. In addition to periodic communication and stakeholder engagement projects, there are certain situations and contexts that require the development of plans and specific communication efforts.

We also use the Materiality Test, a series of structured queries for our stakeholders to find their opinions on the relevance of certain issues related to sustainability and help define which of them should be addressed by our Sustainability Report.

## CHANNELS OF COMMUNICATION

We are accountable to society and report through various channels in order to provide greater transparency about our activities and results. As important channels for dialogue with our stakeholders, we would highlight our Customer Service call center and our Ombudsman, which takes in demands to redirect to each area. Our Customer Service call center concentrates all opinions coming in from stakeholders and reaching us by any means (phone, fax, email or the Petrobras website). In addition to receiving customers' opinions, the service also caters for other segments with information on procurement and sponsorship programs.

We also highlight our blog *Fatos e Dados* (meaning Facts and Data), as a channel for dialogue and transparency of recent news, with our publicly stated positions on issues related to our business. Our Petrobras News Agency website is also a corporate tool for communicating with the press. It carries written content, high resolution photos, audio tracks, videos, presentations and other press or media materials. Its main contents are available in Portuguese, English and Spanish, and key events are broadcast in real time. In 2012, a survey of journalists ("Fala, Jornalista!") conducted by consulting firm Deloitte in partnership with Portal Comuniqué-se, Brazil's biggest online community of media professionals, found that our company had the best communications with journalists. Some 25% of respondents rated us the most efficient in this respect.

Our website was placed first among Brazilian companies in the FT Bowen Craggs 2012 ranked for the Financial Times. This analysis measures the effectiveness of corporate websites in terms of page construction, integration with other channels such as social media, messages conveyed and services for specific segments such as investors, the press, consumers and society.



## RELATIONSHIP PROGRAMS

We have several channels and practices for communicating and engaging our stakeholders, including magazines, newspapers, websites, visit programs and activities on social networks. There are also channels of communication and relationship initiatives specifically for certain segments.

For our internal public segment, there is the Petrobras Portal intranet that includes all our internal sites in one single environment, Petrobras magazine, WebTV, our Daily Health and Safety dialogues and our Volunteer Program. With communities in our area of influence, we develop initiatives such as the Petrobras Agenda 21 program, community committees around refineries, and Social Dialogue at the Rio de Janeiro Petrochemical Complex (Comperj).

In addition to specific communication and relationship initiatives, there is an area in the website for investors.

Our customers have access to an exclusive website to facilitate e-commerce and integrate our commercial and operational processes. For our retailers, we developed a monthly publication called *Jornal do Revendedor*. In addition to products and services, it covers our Health and Safety initiatives as well as environmental preservation and business sustainability.

We also conduct customer satisfaction surveys to record and assess their perception of the quality of our products and services. The results give us what we call the Index of Quality Perceived by Customers (IQPC). The process consists of a personal interview with representatives of commercial, operational and financial areas, who answer questions about negotiating, supplies, products, credit and collection, and relationships. Having obtained this data for Index of Quality Perceived by Customers, we calculate a weighted average for the importance of their value attributes and the strategic importance of customers to our business area.

In our Downstream area, meetings are held to show our contributions to society at the local level, disseminate safety procedures, strategies to mitigate potential impacts (noise, odors, explosions, pollution, accidents, etc.) and publicize our channels of communication with the community. There are also Community Committees, focusing on community leaders in order to find answers and effective solutions to specific demands from communities. Initiatives proposed and implemented by the Committee are discussed together, and decisions are taken to the community.

In 2012, Petrobras Biocombustível joined partner ethanol plants to hold a workshop on best practices in Health & Safety and the Environment. A conference was held with universities on socioeconomic issues related to the biofuel chain, and there were regular visits from representatives of local communities to our biodiesel production plants.

**WE CONDUCT  
CUSTOMER  
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SURVEYS TO RECORD  
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## PRINCIPAL DEMANDS AND MEASURES TAKEN

Most demands coming into our call center concern social projects, donations and funding for local NGOs, sponsorship for events, requests for visits to operational units and complaints about possible impacts.

Investors' main concerns related to operating and financial results and our Business and Management Plan. Decisions are made at meetings held in the course of the year for approval of subjects that have to be taken to shareholders. In 2012, there were two extraordinary meetings and one ordinary meeting.

Our Gas & Power area reported demands from environmental agencies, in which the main concern was avoid degradation of the environment, in addition to requiring mitigating and compensatory measures for licenses granted. For electric and water utilities, and other services, the concern is ensuring that these resources are used within acceptable limits to avoid jeopardizing supplies or depleting these resources. Municipalities affected by our projects wish to avoid negative impacts arising from construction sites, or seek mitigation or compensation. Key measures adopted included reclaiming degraded areas, wildlife conservation and legally protected areas, restoration of permanent preservation areas, management of groundwater use, setting targets for training of workers in our area of influence; solid waste management; use of local roads during off-peak periods, and educating the public and authorities in the area of influence, building partnerships for highway infrastructure and essential services, management of effluents and atmospheric emissions.

The main critical issues raised in 2012 by direct customers of our Downstream area concerned commercial contracts, product quality, delivery schedules, measurement reliability, altered orders, documentation and prices. We adopted some measures in response to demand, such as analyzing each customer's complaint and amending contractual conditions, improved quality of products and delivery processes (scheduling, delays and inventory), and regularity of services, agreed locations, alternative supply complexes and other issues. We also adjusted measuring equipment to ensure accurate information and advised all staff involved in delivering product to ensure provision of adequate documentation accompanying the product, obeying laws for issuing tax documents, product analysis certificates, collection documents and other items, as well as holding clear and objective dialogues on prices to ensure negotiations pose benefits for both company and customers.

In the Exploration and Production area, the most frequently mentioned issues were pre-salt, employment, occupational qualification, impact on fishing activities, improving infrastructure, distribution and use of royalties, registration of suppliers, traffic accidents, fires and environmental accidents. The area responds to questions on preventive communication processes for health and safety, environment, emergency drills, telephones for contact, dialogue with the community and partnerships with government.

The main issues addressed in Engineering, Technology and Materials refer to expectations of construction and industrial fitting contractors in relation to Health, Safety and Environment issues, and the preparation of proposals during tender/bidding procedures. Concerns posed by these companies include the use of health and safety procedures and tools on construction sites being in alignment with our standards while retaining the specifics of the contractor's own management system, thus avoiding issues during certification audits to which these companies are subjected. Together with these companies we developed work on procedures to be adopted for services on our sites.





## INVESTOR RELATIONS

We are committed to providing correct and accurate information to our investors – whether institutional or individual, including shareholders and debenture or bondholders –, presenting our results clearly and credibly pursuing constant dialogue and thus credibility for investors. We therefore conducted relationship initiatives in order to maximize our market value and the liquidity of our securities, thus strengthening recognition of our operational, economic and financial valuation, and our reputation, credibility and visibility, managing investor expectations and lowering risk perception.

Our Investor Relations portal carries data on corporate strategy, corporate governance, competitive advantages and risk factors, operational highlights, press releases, reports, information on dividend policy and payments, and composition of share capital, among other items. In addition to statements and submissions of material facts, the portal contains presentations, conference calls, online chat sessions, calendars of event and minutes of shareholders' meetings.

Our Investor Relations area has a communication plan that includes an annual calendar of events to hold meetings between our directors and managers with analysts, through formal meetings, seminars and conferences, or webcast and online chat sessions. Investors visited our operating units to develop a critical vision and assist their investment decisions. This also helps to broaden market analysts' perceptions in relation to Petrobras.

We produce a publication called *Petrobras em Ações*, which discusses results from operations, financial strategy and company news. Both printed and online versions are available. In addition, the publication of SEC Form 20-F, our Activity Report, and our Reference Form are also ways of providing information for investors and analysts.

In 2012, Petrobras International Finance Company placed US\$ 7 billion in securities in the international capital market. In just one day, demand exceeded US\$ 25 billion when over 700 investors placed more than 1,600 orders. Among other records, this was Brazil's biggest ever international offering of securities.

## CORPORATE STRUCTURE

We have 307,519 shareholders custodied at Brazil's Stock, Commodities and Futures Exchange (BM&FBovespa) and Banco do Brasil (primary custodian for our stock). In addition, there are 251,078 unitholders of investment funds owning Petrobras shares; 74,137 investors buying shares against their accounts with the Employee Severance Fund (local acronym FGTS) and approximately 265,000 ADR holders, taking the total number of investors to around 900,000.

Our share capital of R\$ 205,392,136,722.39 is represented by 13,044,496,930 shares without par value, of which 7,442,454,142 (57%) are common shares and 5,602,042,788 (43%) preferred shares. Brazil's Federal Government is our majority shareholder with 50.26% of our common shares.

| CORPORATE STRUCTURE  |                          |            |
|--|--------------------------|------------|
|  |                          | %          |
| <b>COMMON SHARES</b>   | <b>7,442,454,142.00</b>  | <b>100</b> |
| Federal Govt   | 3,740,470,811.00         | 50.3       |
| BNDESPar   | 11,700,392.00            | 0.2        |
| BNDES  | 734,202,699.00           | 9.9        |
| Fundo de Participação Social (FPS) [Social Participation Fund] | 6,000,000.00             | 0.1        |
| Fundo Soberano (FFIE) [Sovereign Wealth Fund]                  | -                        | 0          |
| ADR Level 3  | 1,535,209,896.00         | 20.6       |
| FMP – FGTS Petrobras   | 163,501,398.00           | 2.2        |
| Foreigners (CMN Resolution No. 2,689)                          | 498,356,684.00           | 6.7        |
| Other individuals and companies <sup>(1)</sup>                 | 753,012,262.00           | 10.1       |
| <b>PREFERRED SHARES</b>  | <b>5,602,042,788.00</b>  | <b>100</b> |
| Federal Govt   | -                        | 0          |
| BNDESPar   | 1,341,348,766.00         | 23.9       |
| BNDES  | 161,596,958.00           | 2.9        |
| Fundo de Participação Social (FPS) [Social Participation Fund] | 2,433,460.00             | 0          |
| Fundo Soberano (FFIE) [Sovereign Wealth Fund]                  | -                        | 0          |
| ADR, Level 3 and Rule 144-A                                    | 1,558,266,596.00         | 27.8       |
| Foreigners (CMN Resolution No. 2,689)                          | 918,017,703.00           | 16.4       |
| Other individuals and companies <sup>(1)</sup>                 | 1,620,379,305.00         | 28.9       |
| <b>CAPITAL</b>   | <b>13,044,496,930.00</b> | <b>100</b> |
| Federal Govt   | 3,740,470,811.00         | 28.7       |
| BNDESPar   | 1,353,049,158.00         | 10.4       |
| BNDES  | 895,799,657.00           | 6.9        |
| Fundo de Participação Social (FPS) [Social Participation Fund] | 8,433,460.00             | 0.1        |
| Fundo Soberano (FFIE) [Sovereign Wealth Fund]                  | -                        | 0          |
| ADR (common shares)  | 1,535,209,896.00         | 11.8       |
| ADR (PN)   | 1,558,266,596.00         | 11.9       |
| FMP – FGTS Petrobras   | 163,501,398.00           | 1.3        |
| Foreigners (CMN Resolution No. 2,689)                          | 1,416,374,387.00         | 10.9       |
| Other individuals and companies <sup>(1)</sup>                 | 2,373,391,567.00         | 18.2       |

(1) Includes Bovespa custody and other entities.

## RELATIONSHIP CHANNELS AND MEETINGS

We provide a hotline and e-mail exclusively for shareholders (acionistas@petrobras.com.br). Visits to our operating units are organized to develop a critical view of our activities with the purpose of assisting investment decisions. This also helps broaden investors and market analysts' perceptions in relation to the company. In the course of the year, we held roadshows and conferences with institutional investors in Latin America, the United States, Europe, Asia, and Australia.

Each quarter, after posting our earnings, we hold an online chat session for investors, as well as communication by letter or fax. Information about the company is available via social networking, the internet and mobile phones. We held four conference calls in Portuguese with simultaneous translation into English and four press conferences to announce our 2012 earnings and our 2012-2016 Business and Management Plan. In addition, we broadcast four programs on our corporate TV. There were also external presentations in Rio de Janeiro, São Paulo, New York and London. We organized 12 corporate visits and took part in 13 stages of ExpoMoney and fairs in Brazil aimed at individual investors. We attended the national conference of Capital Markets Analysts and Investment Professionals Association (Apimec) and at the National RI Meeting held by the Brazilian Investor Relations Institute (Ibri). We were at six Money Shows conferences and we organized roadshows in eight cities in the United States and Canada, as well as seminars and lectures with banks and brokers firms.

Our shareholders may submit and formally move opinions or statements about our activities at ordinary or extraordinary general meetings. Our Corporate Governance Guidelines state that the Board of Directors must play an active role in defending the interests of all our shareholders and that senior management must always give due consideration to opinions, suggestions or recommendations from minority shareholders. The document also states that our Investor Relations department (executive management) is our main channel of communication with the market.

## SUPPORT FOR PUBLIC POLICIES

We follow and participate in discussions on public policy and bills related to several issues such as the environment, sustainable development, climate change, health and safety, environmental licensing and compensation, waste management, water resources and effluents. Our participation in forums on these topics aims to assist the authorities with coherent and appropriate regulatory frameworks for the development and implementation of public policies, programs, and projects committed to sustainable development in countries where we are present.


Positions may be taken for or against potential legal requirements and the development of public policies, or we may suggest amendments. These positions may vary with the technical quality of the proposal, its potential social and environmental impact on our activities, or the technical consistency and legality of a project, and we act in alignment with our Code of Ethics. The most significant issues relate to the environment (atmospheric emissions, climate change, environmental permits, water resources and effluents, solid waste, environmental compensation). We operate based on records that appear in each area of Health, Safety and Environment and by participating in this process, we hope to contribute to the emergence of an adequate regulatory framework for sustainable development.

In 2012, note our contacts with two ministries, Mines and Energy, and Planning, Budget and Management, to define criteria for Petrobras to disclose information in order to comply with Access to Information legislation.+

In terms of representing our interests in relation to federal public institutions and the legislature, there are 478 propositions being discussed in Congress that comprise the Petrobras Legislative Agenda and that have been prioritized as high or medium by our Business Areas.

To ensure transparency in our relations with government, our Code of Ethics states that we do not contribute to political parties or political campaigns of candidates for elective office. We emphasize our refusal to countenance corrupt practices or bribery, and we maintain formal control procedures with consequences in the event of any transgressions in the company.

Our social and environmental work is based on public policies related to the themes we choose for our sponsorship programs. In the course of the year, in Brazil, we contributed to the Ministry of Education's National Education Plan in relation to the eradication of illiteracy by 2020 through the Mova-Brasil project organizing reading and writing courses focused on enhancing citizen participation, employment and income generation.

  
For more details,  
see the "Disclosure"  
chapter

In other countries, we develop campaigns and social investment projects together with the most representative authorities and institutions in our areas of influence, in order to pursue sustainability while making a positive impact and enhancing economic support in the country concerned. Another highpoint was the support, guidance and preparation of visits to government institutions in Brazil and workshops for technicians from Angola's National Petroleum company or public bodies such as Angola's Ministry of Petroleum.

## NONCONFORMANCE WITH LAWS AND REGULATIONS

We were fined on 31 significant charges of noncompliance with laws and regulations totaling R\$ 547.97 million. The criteria used to consider a fine as significant is that it amounts to R\$ 1 million or more. We believe that a fine is only applicable for a breach of obligation (legal or contractual) and fines applied to Petrobras usually lead to administrative defense (challenge) or judicialization of the issue, which does not reflect our non-conformity with the unilateral act of the fiscal agent, hence there is no recognition of acting in non-conformity with laws and regulations.

In Exploration and Production, ANP issued 20 notifications for a total of R\$ 232.3 million, resulting from tax assessments for alleged irregularities during the inspection of the measuring system and the absence of monthly transaction bulletins. In all cases, we are submitting defense and appealing, and we are awaiting final judgment. There were also five fines totaling R\$ 39.5 million related to the investigation of irregularities in maritime drilling unit and an oil spillage incident. In Gas & Power, there were two infraction notices totaling R\$ 6.4 million paid by Petrobras relating to allegedly building and operating facilities without prior approval from ANP. In other countries, no significant fines were applied.

## CUSTOMER AND CONSUMER SATISFACTION

We conduct customer satisfaction surveys to assess our customers' perceptions of the quality of our products and services. In the Downstream area, surveys provide an important mechanism for identifying customer needs, both in preparation (focus groups), and in analysis of results. In 2012, our survey was sent to approximately 800 potential respondents, representatives of direct customer at the operational, tactical and strategic levels of the business. The survey covered the following value areas: negotiation, credit and collection, documentation, delivery, product, relationship, service, after-sales, image, and customer channel. The survey results provide the basis for a detailed action plan based on gaps identified in each area of value as regularly detected and monitored by our management tools.

Canal Cliente (Customer Channel) is a unique site with access restricted to our direct customers. It has a public area for the market accessed from our corporate website and provides information on customers' commercial transactions to support the entire commercial process.

Petrobras Distribuidora conducts a Major Consumer satisfaction survey every two years. The most recent survey in late 2011, for presentation in 2012, found a 90% level of satisfaction. Some of the opportunities for improvement detected were to hold more frequent visits for technical support professionals and to strengthen the content of our Business Channel, which is geared to customers (companies). Services provided by our sales team were rated excellent and highly credible.

Our Liquid Gas area conducted a quantitative survey of satisfaction for customers buying liquefied petroleum gas (LPG) for residential use, who tested a new product, our LEV cylinder. Approximately 4,000 residential consumers and customers of seven retailers in the states of São Paulo, Rio de Janeiro and Rio Grande do Sul were selected to assess certain criteria, such as brand loyalty, residents of neighborhoods with different socioeconomic profiles, and persons responsible for purchasing. Participants received the product in their homes together with a booklet containing explanations about the survey, consent forms, and questionnaires, and they were asked to call the retailer if the gas lasted less than 45 days. As a result, Liquigás obtained homogeneity with no significant differences by age group, genders, cylinders tested, or city. The LEV cylinder met with good acceptance and 100% of customers would recommend using it.

In 2012, Petrobras Distribuidora had one case of violation of consumer privacy due to a problem in the system used to register promotions. The case was treated as an isolated incident, was solved quickly, and did not prejudice the initiative. Procedures for handling contacts or complaints include confidentiality for all data across the entire Petrobras System.





# Transparency and accountability

The conduct of our business requires transparency for measures taken and positions advocated, especially in relation to information reported to society. This is an ethical principle that guides Petrobras initiatives and must be manifest as respect for public interest in accordance with the right to personal privacy and Information Security Policy.

Our activities are monitored by the Board of Directors. Our accounts are continuously analyzed by internal and external audits, and by the Federal Comptroller General (CGU) and Court of Audit (TCU). We fulfill the requirements of bodies such as Brazil's Securities Commission (CVM), the Securities and Exchange Commission (SEC) in the United States, and Sarbanes-Oxley, and our balance sheets have been audited and approved by all instances.

Focusing on transparency and fighting corruption, we would highlight the Global Compact's tenth principle, our participation in initiatives promoting transparency and fighting corruption, such as the Joint Initiative Against Corruption (PACI) and the Extractive Industries Transparency Initiative (EITI).

As recognition of the above, we were awarded the highest score on the Dow Jones Sustainability Index (DJSI) "transparency" criterion for the sixth time, and we were part of the DJSI for the seventh consecutive year. In addition, for the 12th consecutive year, we took the Transparency Trophy awarded by Brazil's National Association of Finance, Management and Accounting Executives (Anefac), the Accounting, Actuarial and Financial Research Institute (Fipecafi), and Serasa Experian.

**WE WERE AWARDED THE HIGHEST SCORE ON THE DOW JONES SUSTAINABILITY INDEX (DJSI) "TRANSPARENCY" CRITERION FOR THE SIXTH TIME, AND WE WERE PART OF THE DJSI FOR THE SEVENTH CONSECUTIVE YEAR.**

## COMPLAINTS

Our Ombudsman's office operates independently and neutrally as a means of fostering transparency and ethics. The office provides a channel for dialogue between our stakeholders and our senior management to ensure that opinions, suggestions, complaints and whistleblower reports get a hearing. Access may be by telephone, fax, e-mail, filling out a form on the website, by letter, in person or depositing notes in urns located in some units. Complaints received are reviewed and referred for treatment by the related areas. Situations classified as complaints that depend on specialized investigation are sent to Internal Audit and Corporate Security areas, who report outcomes to the Ombudsman's office.

In addition to providing a toll-free hotline, the Ombudsman has a specific website for internal and external access, which posts annual balance sheets, news and advice, as well as an electronic form that may be used by



any stakeholder to forward suggestions, criticisms or complaints. In 2012, our Itinerant Ombudsman Program organized visits to five units. Seven introductions to the company were provided for 1,197 employees. Three New Manager Integration events were attended by 149 executives.

| SITUATION OF DEMANDS |               |
|----------------------|---------------|
| Concluded            | 10,415        |
| Pending              | 954           |
| <b>Total</b>         | <b>11,369</b> |

| MEANS OF CONTACT                  |               |
|-----------------------------------|---------------|
| Citizen Information Service (CIS) | 2,689         |
| Form on the Ombudsman website     | 3,283         |
| E-mail                            | 2,717         |
| 0800 toll-free line               | 914           |
| Telephone                         | 817           |
| Personally                        | 790           |
| Whistleblower Channel             | 116           |
| Urns                              | 19            |
| Letter/fax                        | 24            |
| <b>Total</b>                      | <b>11,369</b> |

In 2012, our Ombudsman recorded 97 human-rights related cases. Of these, 59 involved psychological violence in the workplace. After investigation and treatment, only one was classified as such and appropriate measures were taken. Of the remainder, three are being analyzed, 42 were filed for not submitting sufficient data to start treatment, and 13 were rated unfounded. According to the classification made by the Ombudsman Office's complaint handling system, there were 38 reports of gender, sexual orientation, skin-color or racial discrimination. Because of these reports, our business areas have worked to broaden discussion of these issues in order to inform the workforce and avoid future incidents.

The procedure for handling complaints articulates with management departments responsible for the issues involved and with Business Security, Internal Audit and unit general managers.

We also investigate cases of irregularities or complaints forwarded from our Customer Service call center, external control bodies – the Federal Court of Audit and Comptroller General – and from Public Prosecutors. Our Business Protection department investigates any employee involvement in misconduct and combats corruption.

Petrobras University takes up human rights related issues through courses for our employees. In 2012, lectures for new managers, supervisors and employees aimed to strengthen these points and curb practices that are harmful for the company. Human rights related issues have been taken up across different levels with the involvement of 1,254 professionals totaling 16,042 MHW.

## ANTI-CORRUPTION MEASURES

No cases of corruption were detected in 2012. We reject all corrupt practices and payments of bribes, and we use the Competitive Conduct and Good Practice codes, and follow the Federal Administration Code of Conduct, which has its application overseen by the Public Ethics Commission of the Presidency. Our Business Security area manages and coordinates application of our methodology for security risk assessments in various units. However, we have not yet made assessments of risks directly related to corruption. Part of its work is detecting threats, weaknesses and consequences. There are also employee committees tasked investigating the involvement of employees in misconduct, including acts of corruption.

In 2012, we did not consolidate the percentage of employees, managers and non-managers who had been trained in anti-corruption policies and procedures.

## DISCLOSURES

We provide information on our digital channels, such as annual accounts, investment budgets, contracts for services and materials, as well as sponsorships and agreements signed, including bidding procedures in each case. Publishing this information, in addition to meeting the legal requirements of Decrees 5481 and 5482 of the Presidency of Brazil, is one of our corporate governance principles.

Our website also discloses licensing procedures, studies and reports for the purpose of ensuring that our activities comply with current legislation and legal and regulatory principles throughout the life cycle of facilities and operations. Our Environmental Impact Assessment (EIA) and Environmental Impact Reports (RIMA) are available for public consultation.

In 2012, we provided another channel of information to comply with Brazilian legislation on access to information (Law 12,527 of 2011), which applies to public-private companies such as Petrobras, under which all information produced or custodied by government that is not classified as confidential must be accessible to all citizens. The law requires disclosure of information in easily accessible places and on the internet and the right of access to full and authentic updated information in transparent, clear and easily understood language. Any citizen may request specific information and documents.

In this context, we set up our Citizen Information Service (CIS), to respond to and advise the public on access to information, report on documents being processed, and file documents and requests for access to information. Requests for information do not require justifications and must be met within 20 days, which may be extended for ten days with an explanation in writing. Any denial of access to information must be for a good reason and may be appealed within the ambit of the body itself, to the Federal Comptroller General or the Joint Commission for Reassessment of Information. Confidentiality is stipulated when disclosure of our information endangers or impairs the security of society and the state, or competitive advantage, corporate governance or interests of



**IN 2012, WE PROVIDED ANOTHER CHANNEL OF INFORMATION TO COMPLY WITH BRAZILIAN LEGISLATION ON ACCESS TO INFORMATION (LAW 12,527 OF 2011).**

our minority shareholders. In 2012, we received 3,423 requests for information, of which 734 were prior to the new law's coming into effect, corresponding to 21.44%, and 2,689 since the implementation of Petrobras Citizen Information Service, or 78.56% of the total.

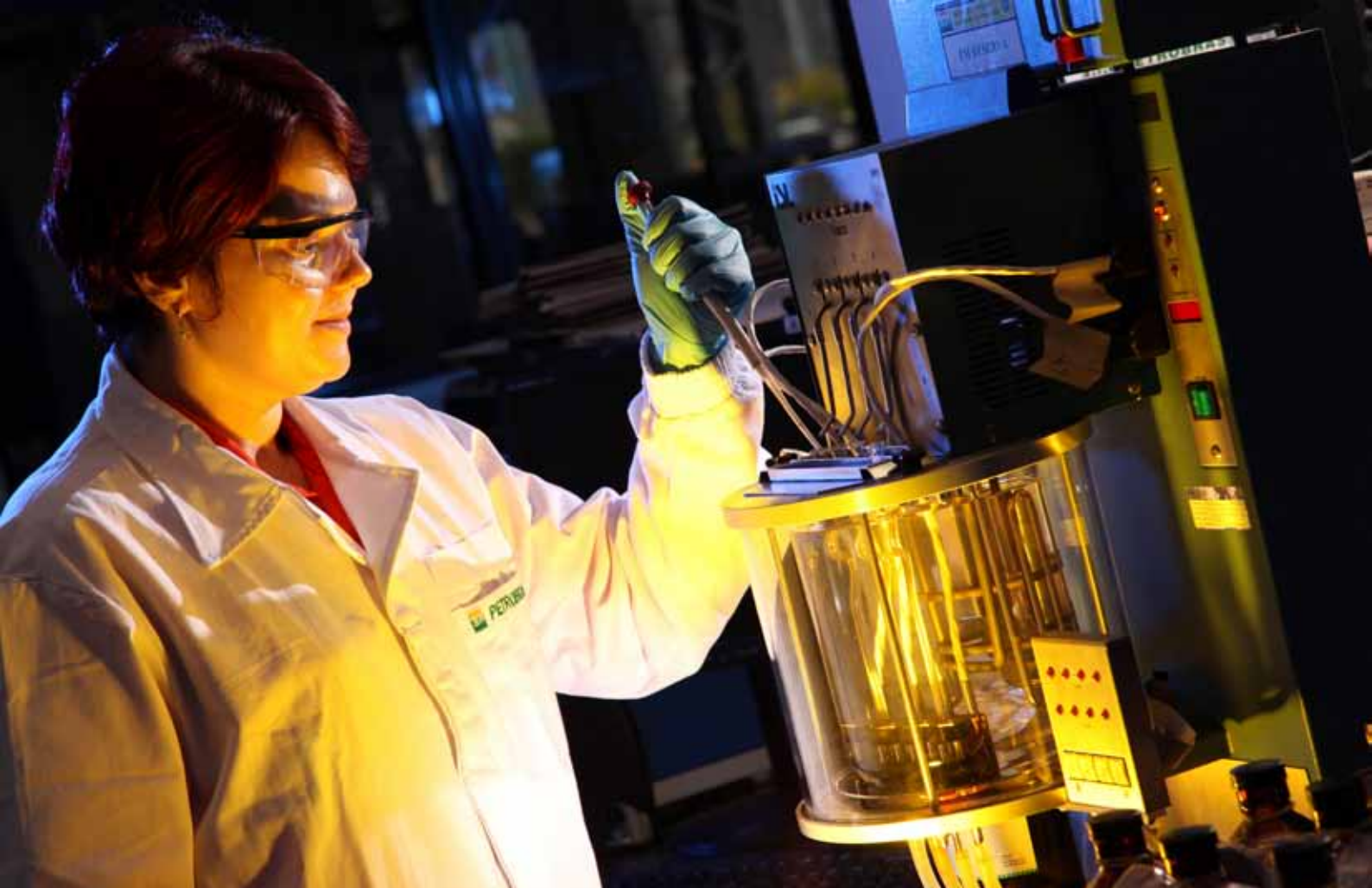
| REQUESTS RECEIVED UNDER THE LAW OF ACCESS TO INFORMATION |              |               |
|--|--------------|---------------|
| COMPANY  | QUANTITY     | %             |
| Petrobras  | 2,654        | 98.70         |
| Petrobras Biocombustível                                 | 19           | 0.71          |
| TBG  | 5            | 0.19          |
| TAG  | 4            | 0.15          |
| Citepe   | 3            | 0.11          |
| Refinaria Abreu e Lima S.A.                              | 3            | 0.11          |
| Termobahia   | 1            | 0.04          |
| <b>Total</b>   | <b>2,689</b> | <b>100.00</b> |

Although the Law of Access to Information has stipulated deadlines for maintaining confidentiality, it does not define the term for confidentiality involving business secrets arising from direct economic activity by a private entity that has no relationship with government.

In light of the above, information classified as business secret has no time limit for maintaining confidentiality since the company is part of a market environment in which it must take steps to ensure its competitiveness, corporate governance and minority shareholder interests.

We have set up a working group to deal with compliance, and our Ombudsman Office took on new powers such as ensuring compliance with rules on access to information, monitoring implementation of the law, and submitting periodic reports, as well as making recommendations and guiding units in relation to compliance.

In cases of refusal to provide public information, delay or inaccuracy, disclosure of confidential information and personal information, improper classification of information due to bad faith, among other instances of illegal conduct, those responsible are subject to disciplinary sanctions and the law of administrative misconduct.



## Intangible assets

We value our intangible assets, consisting of our intellectual capital – divided into human, organizational, relational and technological capital –, and recognize its crucial importance for our market value and as competitive advantage. Our strategy for managing intangible assets has been systematically recognized by the market. An example of this was seen in two trophies from the Brazil 2012 Intangibles Award in which we were the winners in the “Infrastructure” sector and the special category “Integrated Management of Strategic Information Assets”. Since the awards were first made in 2007, we have been recognized every year and have now taken 14 trophies.

We are also ranked sixth of the 100 best companies for integrated management of intangible assets. The award is an initiative of Consumidor Moderno [Modern Consumer] magazine and DOM Strategy Partners, with support from Grupo Padrão and E-Consulting Corp.

We were also featured in the 15th ranking of “Most Admired Companies in Brazil” prepared by Oficina Sophia and sponsored by Carta Capital magazine. We were placed first among “Latin America’s most admired Brazilian companies” and recognized in two other categories, “Brazil’s 10 Most Admired Companies” and “10 Most Admired Leaders”. Petrobras Distribuidora was also voted best company in the “Fuel and Oil Product Distributors” segment.



## RESEARCH AND DEVELOPMENT



In 2012, we invested R\$ 2.2 billion in Research and Development (R&D). We are constantly renovating our technology strategy, which is adapted to the historical context in Brazil and the company's business targets. New challenges have posed the need to develop groundbreaking technologies worldwide to enable production in ever deeper waters, thus boosting the performance of our R&D area.

Petrobras has one of the biggest applied research facilities in the energy industry worldwide. The center was named for Leopoldo Américo Miguez de Mello (local acronym Cenpes). The area is responsible for our R&D, basic engineering, and technology management, and its mission is to provide technological solutions and anticipate new developments, with an innovative and sustainability-based approach to support the Petrobras System. Its staff of 1,897 includes 1,420 employees dedicated exclusively to research and development, and 314 working on basic engineering projects. Of these researchers, 23% have doctorates and 42% master's degrees. Cenpes has pilot units and over 200 laboratories, one of which is for Petrogeophysics, and its Collaborative Visualization Center (NVC), which has environments for developing three-dimensional simulation projects.





## MAJOR R&D RESULTS OBTAINED IN 2012

- ▶ Completion of new geological model of Brazil's Atlantic continental shelf, which will provide more accurate estimates of exploratory risks involved in offshore sedimentary basins;
- ▶ Updating the model for geological evolution of the Parnaíba Basin, which will enhance analysis of factors affecting the presence of oil and gas deposits there;
- ▶ Completion of three-dimensional seismic velocity model for the discovery of Jupiter in the Santos Basin pre-salt layer, which will determine the most appropriate strategies for acquisition, processing and interpretation, thus enhancing visualization of reserves, which is crucial to optimize investment in the exploration and development phases of production;
- ▶ Applying latest generation technology and analytics to simulators developed by Petrobras to assist drilling the first horizontal well in the pre-salt layer. The use of this type of well lowers the costs of developing the pre-salt layer and enables higher production from fewer wells;
- ▶ Installation of the first intelligent completion systems in the pre-salt layer, which will boost production;
- ▶ The world's biggest currently functioning helico-axial multiphase subsea pump developed by Petrobras and Framo Engineering started operating and boosted the Barracuda field liquid production by about 6,000 barrels per day;
- ▶ A subsea seawater injection system, developed by Petrobras and Framo Engineering started operations and is currently injecting 500 m<sup>3</sup> per day in the Campos Basin's Albacora field;
- ▶ Compiled basic specifications and technical documentation governing bidding procedures for the P-74, P-75, P-76 and P-77 platforms in "onerous transfer" oil fields. The project was conceived by balancing investments and operating expenses with technical parameters and costs within international metrics;
- ▶ A 5% increase in of gasoline production at Gabriel Passos refinery (Regap) using the new iso-zoom additive;
- ▶ Initial operation of the first hydrodesulfurization plant for cracked naphtha using Petrobras technology at the Capuava refinery (Recap), which will produce gasoline with sulfur content of up to 50 ppm, in accordance with ANP specifications for 2014;
- ▶ Reduction of 293 million liters of water use per year at Regap, equivalent to a daily consumption of 6,000 people, through groundbreaking technique for reusing water in refining;
- ▶ Implementation of advanced control of the ammonia unit at Bahia fertilizer plant which reduced natural gas used in the unit by 4.6% – annual savings of 17 tons of CO<sub>2</sub> emissions;
- ▶ Started energy recovery system at Paulínia refinery (Replan), specified by Petrobras. Its output of 11-13 MW will cut 90% off the refinery's costs of buying electricity;
- ▶ New Sociot technology at Replan refinery cut 5% off particulate matter atmospheric emissions at lower cost than conventional technology;
- ▶ Developed new marine monitoring technique that will meet requirements of environmental authorities for disposal of water produced offshore.

## TECHNOLOGY COLLABORATION NETWORKS

R\$ 586 million were invested in Brazilian universities and science and technology institutions for R&D projects, training of staff and researchers and extension of laboratory infrastructure. Note also partnerships with suppliers, particularly for pre-salt related projects. We coordinated 49 research and development networks involving over one hundred universities and research institutions from all over Brazil. Through these networks, institutions develop research on strategic issues for our business and the Brazilian energy industry. We are investing an average of around R\$ 460 million per year to enable partner institutions to deploy infrastructure, buy modern equipment, set up world-class laboratories in terms of excellence, train researchers, human resources and develop R&D projects in our areas of interest, such as oil and gas, biofuels and environmental preservation.

## NEW TECHNOLOGIES AND PATENTS

New technologies developed with our partners have already shown results in areas where they are being applied. The installation of multiphase subsea pump using electrical energy sent by the platform to increase pressure, enabled the BR-73 well in the Barracuda field (Campos Basin) to boost production from 15,000 to 23,000 barrels per day. The undersea oil-water separator, developed in partnership with FMC Technologies, is now fully installed on the P-37 platform, in the Marlim field. By separating water from oil on the sea bed, it helps reduce the amount of water reaching the platform during production, this improving petroleum processing.

In 2012, the Gas Technology and Renewable Energy Centre (local acronym CTGAS-ER), a partnership with Brazil's Industrial Training Service (Senai), started testing a system for monitoring concentrations of greenhouse gases (CO<sub>2</sub>) and other atmospheric pollutants such as nitrogen oxide (NO<sub>x</sub>), sulfur dioxide (SO<sub>2</sub>), carbon monoxide and ozone. This equipment means that air quality around thermoelectric plants fired by different types of fuels (natural gas, fuel oil and diesel) will be monitored in real time. Compares favorably with conventional high-cost slow-response methods, with additional gains in interpretation and simultaneous acquisition of air quality parameters. Monitoring gaseous emissions from combustion processes and air quality is a requirement of environmental agencies defined in the resolutions of Brazil's National Environment Council (CONAMA).

We also signed a cooperation agreement with Senai for a total amount of R\$ 11.5 million, to set up the Brazilian Laboratory for Excellence in Welding Technology, in Rio de Janeiro. The structure will meet research and development the needs and upgrade processes in the area. It will be the first laboratory of its kind in Latin America. Investment in welding processes is major progress for oil industry projects since welding is crucial for various construction projects in Brazil. Technologies developed in the laboratory will help boost productivity, positively impact costs and favor startup ventures. Infrastructure includes robotized processes and laser technology that will develop knowledge and new techniques for welding and assembling pipelines, equipment, and plates.

**NEW TECHNOLOGIES  
DEVELOPED WITH  
OUR PARTNERS HAVE  
ALREADY SHOWN  
RESULTS IN AREAS  
WHERE THEY ARE  
BEING APPLIED.**

Together with Universidade do Estado do Rio de Janeiro (Uerj), we opened the Industrial Networks and Automation Systems Laboratory (local acronym Larisa). Studies focus new technologies for performance assessment and procedures for integrating wired and wireless industrial networks. R\$ 1 million was invested to build the laboratory, which is part of a thematic network known as Science-Technology-Industry Integration in the Production Process, with the purpose of higher-level qualification for professionals engaged in specifying, implementing and configuring industrial networks. The laboratory will facilitate research and projects for optimizing our industrial structure, making its infrastructure more efficient.

In partnership with Universidade Federal do Amazonas (Ufam), we have set up laboratories to study asphalt paving technologies for the Amazon region. The R\$ 1 million investment helped build laboratories for asphalt mixtures, binders and soil, which will be used to study Amazonian soil used for the region's highway pavements and airports. We also signed a partnership agreement with Universidade Estadual de Campinas (Unicamp) and expanded the laboratory of the Microbial Resources Division of the Multidisciplinary Center for Chemical, Biological and Agricultural Research (CPQBA). The project is a contribution to upgrading capacity for basic research to understand microbiological processes and mechanisms that may significantly change the characteristics of oil, especially biodegradation in petroleum reserves. The R\$ 4 million investment is part of the contractual obligation to invest in research and development that we assumed on signing concession agreements for oilfields subject to special sharing arrangements signed with ANP.

We started production in the Cascade field with the first FPSO operating in the North-American part of the Gulf of Mexico. FPSOs are floating platform vessels for production with storage and offloading capability. Committed to producing in the region and expecting to invest more, we signed a technological cooperation agreement with the city of Houston in the United States. The initiative involves research with universities in Texas, such as National University, University of Texas and Rice University.

## REPUTATION

We were the only Latin American company ranked among the hundred global corporations with the best reputation, according to a survey by the Reputation Institute, the New York based private advisory and research firm. We were also the only energy company among the hundred most respected, in 98th place. For the sixth time, we were elected the “young people’s dream company”, according to a survey conducted by Cia de Talentos, a human resources consulting firm operating throughout Latin America, in partnership with Nextview People, a research firm. For the ninth consecutive year, we won the DCI Award. The initiative recognizes Brazil’s leading companies on a vote of 5,000 electors, including businesspersons, executives, and economists. In 2012, we won in the Petroleum and Most Admired State Capital Company segments.

## THE PETROBRAS BRAND

For the third consecutive year, we took first place in the ranking of Brazil’s most valuable brands – R\$ 19.7 billion –, sponsored by BrandAnalytics consultants and Britain’s Millward Brown. We also took first place in the *BrandZ* ranking of “Latin America’s 50 Most Valuable Brands.”

For the tenth consecutive year, we were the brand most recalled by Brazilian consumers in the Fuels category for the Top of Mind award, made by *Folha de S. Paulo* newspaper. Since the Fuels category was included in the awards in 2003, we have won first place every time.

## MAJOR BRANDS

We have a set of own-brand products for consumers:

- ▶ *Podium*: gasoline and diesel;
- ▶ *Verana*: premium diesel oil;
- ▶ *Supra*: gasoline with additive;
- ▶ *Reforce*: N, urea for livestock;
- ▶ *Lubrax*: oil and lubricants;
- ▶ *Flua*: urea for heavy vehicles powered by diesel.

Highlights among our services brands are *Spacio 1*, *De Olho no Combustível*, *Siga Bem*, *BR Aviation*, *Lubrax+* and *BR Mania*.



# Product Liability

We periodically evaluate the performance of our services, products and packages throughout their life cycle to ensure their high quality standards and minimize any adverse effects on the environment, health and safety. Our investments focus on technological research and development, diversification of our product portfolio and improved production management.+

The research and development work done by Cenpes involves evaluations of the performance and health and safety impacts of new products, with physical-chemical analyzes and performance testing (energy efficiency and emissions of pollutants) in vehicles and engines. The data obtained help to get new products to market, act in jurisdictions that require future specifications of fuels and drive relationship channels with customers and other stakeholders. This enables us to anticipate demands and opportunities and adapt production processes.

Petroleum products, which account for the vast majority of our products in Brazil, about 160 items, processes incorporate health and safety risk assessments at all stages in their production, including protection for our workforce, local communities, and final consumers and the comply with quality requirements under ISO 9002, ISO 14001 and OHSAS 18001.

These assessments are also carried out for transport, storage, distribution, use and disposal or reuse of these products. As a complementary measure, we provide communication channels to receive comments and suggestions on quality of our products, supply information to customers and partners and provide technical assistance.+

## PRODUCT QUALITY

We continually invest to improve the quality of our fuels and other products, complying with laws in countries in which we operate. In Brazil, six refineries started producing diesel fuel with 50 parts per million (ppm) maximum sulfur content in 2011-2012.

Diesel sulfur content, a recurring issue in public debate, is a major focus of these investments totaling R\$ 20.7 billion. In December, we will be replacing all S-50 diesel by S-10 diesel with 10 ppm maximum sulfur content. By 2014, nine refineries will be able to produce S-10 diesel. Around 3.1 thousand Petrobras service stations offer the new fuel in Brazil's major metropolitan regions and state capitals.

This fuel is right for latest-generation diesel engines. Emissions of particulate matter are cut by 80% and nitrogen oxides by up to 98%. It also improves engine performance, reduces deposits and engine wear and allows longer intervals between lubricant changes.

**+**  
**For more details**  
about initiatives  
to mitigate  
environmental  
impacts caused by  
Petrobras System  
production processes,  
see the "Environment"  
section.

**+**  
**For more details**  
concerning the  
assessment of  
health and safety  
risks associated with  
Petrobras products  
and services, see  
the "Environment"  
section.

Our refineries in Brazil make petroleum products with benzene levels within the limits required by national regulations.

We do not add lead to automotive gasoline in Brazil or other countries in which we operate. Tetraethyl lead is only used in aviation gasoline because of its anti-knock properties, which raises octane levels for aircraft. The most commonly used fuel for aircraft is aviation kerosene for jet engines, which do not contain lead.

#### PROGRAMS DEVELOPED

As part of the *De Olho no Combustível* program (“Watching fuel”), we regularly inspect accredited service stations to ensure our product quality throughout the supply chain. Certification requirements include compliance with ANP standards, the state of repair and functioning of filters and proof of origin of fuels sold, among others. After assessment by a technical team, service stations are certified and identified by a seal available to consumers. By end-2012, 97.5% of our service stations had been certified.





In 2012, Environmental Monitor, a Petrobras Distribuidora retail monitoring program, visited 30 service stations in the state of Rio de Janeiro in order to encourage compliance with environmental legislation for safety of facilities and management of potential environmental impacts arising from service stations. About 60% of service stations visited showed some opportunity to improve treatment of effluents. Given this result, we will be taking measures to raise retailer awareness, advising on the periodic cleaning of oil-water separators and the carrying out of laboratory tests to ensure final effluent is less than 20 ppm.

Liquigás has product and package safety initiatives that include periodic maintenance, retailer training and equipment upgrades. A quality program for gas cylinders (De Olho no Botijão) assesses aspects of the steel bottles such as paint, crumpling, rust, condition of the handle and seal, weight of liquefied petroleum gas (LPG) and reconditioning, at all operational units. De Olho nas Instalações a Granel, our Bulk Facilities program inspects facilities and their customers to check conditions at LPG deposits, and eliminate nonconformities when necessary.

## **LABELING PROCEDURES**

We comply with international classification and labeling requirements. Among the specifications we follow are those published by the ANP, Brazil's Institute of Metrology, Quality and Technology (INMETRO), the National Environment Council (CONAMA) and Brazilian Association of Technical Standards (ABNT) standards.

All our products go through labeling procedures for marketing. We have publicly available Safety Data Sheets for Chemicals (local acronym FISPQ) for each commercialized products, such as those from refineries, lubricants, asphalt, biodiesel or glycerin. All byproducts from biodiesel production sold by Petrobras Biocombustível, such as meals and cakes, follow Ministry of Agriculture labeling standards. The subsidiary set a deadline of 2013 for the compilation of fatty acid and refinery sludge content data.

Our products carry labels with advice on use and post-use, spectrum of usage, purpose and benefits, warnings and precautions, shelf life or expiration date, and health and environmental aspects. Recipients for LPG distribution must have tamper-proof flow valves and carry consumer information with the product's origin, content, and safety data.

In 2012, there were no recorded cases of non-compliance with voluntary codes or regulations relating to information and labeling on products and services that have resulted in warnings, fines or penalties, in Brazil or any other country in which we operate.

**ALL OUR PRODUCTS  
GO THROUGH  
LABELING  
PROCEDURES FOR  
MARKETING.**

## COMPETITION AND MARKETING COMMUNICATION

Our corporate communication and branding policies and guidelines focus on strengthening alignment and integrating initiatives and activities of this nature throughout the Petrobras System and in relationships with our stakeholders. In Brazil, our communication activities follow guidelines from the Brazilian Advertising Self-Regulatory Codes for Direct Marketing and Survey Activity, all of which were drafted by Brazilian entities working on the specific issues in question. Our communication and sponsorship initiatives follow regulatory guidelines and normative instructions issued by the Communication Office of the Presidency (local acronym SECOM), and are governed by the Petrobras System Code of Ethics.

Petrobras companies in other countries comply with legal standards applicable in each country as well as corporate standards. Advertising should reflect diversity in terms of ethnic, geographical, and gender features, or people with disabilities, and avoid any form of discrimination. Compliance with internal and external guidelines in Brazil and other countries is verified especially in the planning stages of projects and initiatives.

In 2012, there were no recorded cases of non-compliance with regulations and voluntary codes for marketing communication that resulted in warnings, fines, or penalties in Brazil or other countries. This was also the case for any legal actions pending or closed at year-end involving unfair competition or monopoly practices in Brazil. In Colombia, six actions against free competition, in the courts since 2007, resulted from disputes over the Petrobras Lubrax brand, of which five were brought against Petrobras and its sub-distributors and one was brought by Petrobras against Glanton Ltda. In August, the case was closed with a verdict in favor of Petrobras.

# OPERATIONAL PERFORMANCE

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## Exploration and Production

In the course of the year, we invested R\$ 43 billion in exploration and production, involving development activities for production (R\$ 26 billion), exploration (R\$ 12 billion) and infrastructure (R\$ 5 billion). These funds were used to develop production in the pre-salt and post-salt fields, maintain production in older fields, and upgrade logistics and technology infrastructure.

In Brazil, in particular, there were good results from exploratory activity in the pre-salt and post-salt sections of sedimentary basins in the South, Southeast and Northeast. Progress in activities relating to our Discovery Assessment Plan (local acronym PAD) in these basins confirmed estimates made for previous findings.

### EXPLORATION

In Brazil and in other countries in which we operate, our proven reserves of oil, condensate and natural gas have reached 16.44 billion barrels of oil equivalent (boe) based on criteria used by Brazil's industry regulator, the Petroleum, Natural Gas and Biofuels Agency (ANP) and the Society of Petroleum Engineers (SPE). Reserves were up 0.2% on the previous year's total.

In 2012, 914 million boe of proven reserves were appropriated and 885 million boe were produced, so for each barrel of oil equivalent extracted, 1.03 boe was appropriated, resulting in a Reserve Replacement ratio of 103.3%. Reserves / production was 18.6 years, or 0.6 years below the previous period's.

The main appropriations in Brazil arose from successful exploration in the post-salt layer and development of proven reserves in the pre-salt layer. In the post-salt layer, volumes appropriated pertained to discoveries of new deposits in three basins, Espírito Santo, Campos, and Recôncavo. More fields were declared commerciable in this same section: Tartaruga Verde and Tartaruga Mestiça fields in the Campos basin; Baúna and Piracaba in the Santos basin; and Piranema Sul and Arapaçu in the Sergipe-Alagoas basin.

In the pre-salt layer, proven reserves rose due to the number of wells drilled and better-than-expected performance of production systems in the Campos and Santos basins.

## NEW DISCOVERIES

Discoveries were recorded in the Santos, Campos, Espírito Santo, Sergipe-Alagoas and Solimões basins in 2012

More than one well in the Solimões basin was shown to be commerciable, which may lead to a new production complex in the region.

In the Santos basin, we made ten discoveries in the pre-salt layer, four of which are in "onerous transfer" blocks: Franco NW, Nordeste de Tupi, Sul de Guarã and Franco SW. We also announced commercial feasibility for Baúna and Piracaba, formerly known as Tiro and Sidon, both containing light oil in the post-salt layer.

In the Campos basin's post-salt area, four wells were drilled and two Extended Well Tests (EWTs) conducted in Aruanã and Oliva, both potentially commerciable.

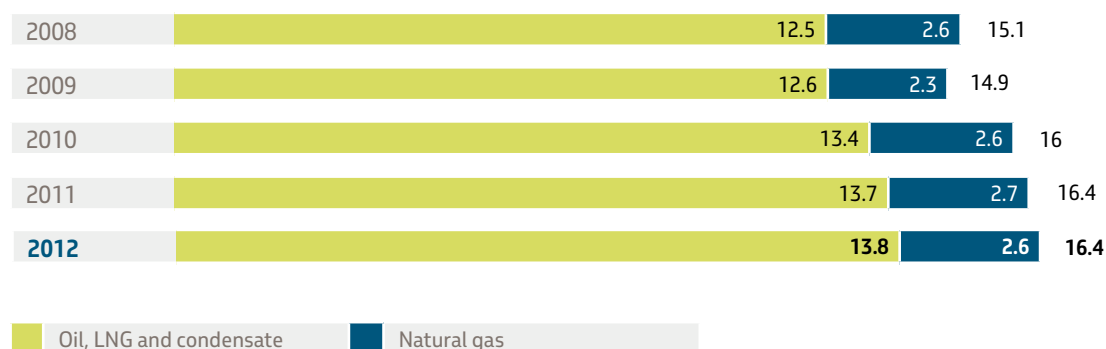
For our units operating in the Campos and Rio de Janeiro basins, we started an Operational Efficiency program (Proef) to reverse a falling trend and obtained average gains of 25,000 bpd in 2012. By December, the Proef program's interventions had generated US\$ 519 million net present value.

Finally, in the Sergipe-Alagoas basin, five wells drilled in deep waters led to the discovery of Barra-1, Moita Bonita, Farfan, Muriú and Cumbe, all in the post-salt section.

The drilling of the Barra-1 extension well and the first-time Farfan well led to the discovery of light oil reserves at deeper levels. Also in this region, light oil was discovered at the Cumbe well.

Among these newly drilled wells, Moita Bonita led to another discovery in the region, and Muriú found a new oil pocket, both in ultra-deep water.

## PROVEN RESERVES OF OIL, LNG, CONDENSATE AND GAS ANP / SPE (BILLION BOE)



a) Includes reserves in Brazil and other countries.

b) Bolivian Constitution has not allowed foreign companies to announce reserves since 2009. Volumes produced in Bolivia were not counted in order to reconcile reserves and production

## EXPLORATION SUCCESS RATE

In 2012, 137 exploratory wells were drilled, 80 onshore and 57 offshore - of which 19 were in the pre-salt layer. The 64% exploration success rate was up 5% on the previous year.

Major discoveries were recorded in the Sergipe-Alagoas, Campos, Santos and Espírito Santo basins, in both pre-salt and post-salt regions, thus ratifying discovery assessment plans.

## SUCCESS RATE - EXPLORATORY WELLS REFERRING TO ACTIVITIES IN BRAZIL.



## RIGS

Under our Master Plan for Development of the Pre-Salt Complex in the Santos basin (Plansal), we contracted 21 rigs, thus concluding the plan to hire 28 offshore drilling rigs to be built in Brazil for our long-term drilling program.

In Brazil, we operated 74 offshore rigs (65 on contract and 9 our own) and 35 onshore rigs (24 contracted and 11 own). In other countries, the total number of rigs in operation was 48 onshore (19 used for drilling and 29 completion and intervention) and four offshore rigs for drilling.



In 2012, we started operating 16 offshore drilling rigs, 15 at depths of over 2,000 meters, in addition to the 25 units already in operation. We took delivery of a Brazilian made jack-up rig capable of operating at depths of 106 meters. Also in this period, we concluded a contract for three offshore drilling rigs, two for depths of less than 999 meters and one for 1,500 meters.

## PRODUCTION

For another consecutive year, production posted record numbers. This increase was due to interconnection of new wells at different platforms (P-48, P-56, P-57, FPSO Cidade de Angra dos Reis) and initial operations of four oil production projects. These factors also contributed to the achievement of production targets for oil and liquid natural gas (LNG) stipulated in the 2012 - 2016 Business and Management Plan.

Total oil production from wells we operate in Brazil was 1.995 million bpd. Taking our own part only, volume produced was 1.98 million bpd, which was down 2% from 2011, but within the year's target band. This reduction was due to the Frade field being shut down due to seabed exudation of oil droplets, more numerous scheduled stoppages than estimated, and more stoppages due to operational problems than expected.

Natural gas production in Brazil was 63.5 million m<sup>3</sup> per day, which was 3.3 million m<sup>3</sup> per day more than in 2011, thus showing an increase of 5.5% due to development of production in the Lula field (FPSO Cidade de Angra dos Reis), interconnection of wells in Mexilhão (PMXL-1) and start of production at Tambaú (FPSO Cidade de Santos).

The share of oil from pre-salt layers in relation to our total in Brazil rose from 5% in 2011 to 7% in 2012. In December, it was up to 10%. Our production from the Santos and Campos basins was 136,400 bpd of oil and 4.2 million m<sup>3</sup> of gas per day, totaling 162,900 bpd.

| PRODUCTION OF OIL AND NATURAL GAS (thousand boe)   |              |              |
|--|--------------|--------------|
|  | 2012         | 2011         |
| <b>BRAZILIAN PRODUCTION</b>                        | <b>2,355</b> | <b>2,377</b> |
| Oil and NGL  | 1,980        | 2,022        |
| Natural gas <sup>(1)</sup>                         | 375          | 355          |
| <b>INTERNATIONAL PRODUCTION</b>                    | <b>243</b>   | <b>245</b>   |
| <b>Consolidated international production</b>       | <b>236</b>   | <b>237</b>   |
| Oil and NGL  | 139          | 140          |
| Natural gas  | 97           | 97           |
| <b>International production - not consolidated</b> | <b>7</b>     | <b>8</b>     |
| <b>Total production</b>                            | <b>2,598</b> | <b>2,622</b> |

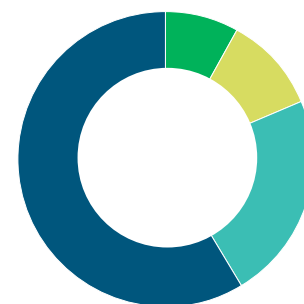
(1) Not including liquefied natural gas; including reinjected gas.

Our Natural Gas Optimization program (Poag 2015) has helped to improve performance of operating units in the Southeast region as a result of less flaring and the resultant increase in gas delivery. The program helped to take the rate of utilization of associated natural gas to a record 91.3%.

PRODUCTION OF OIL, NGLS, AND CONDENSATE IN BRAZIL ONSHORE AND OFFSHORE

CONCESSIONS

For another consecutive year there was no ANP bidding round. We sold our 40% interest in the BS-4 concession of the Santos basin, Atlanta and Oliva fields, and returned other blocks. We ended the period with a portfolio of 117 concession contracts, totaling 90,708 km<sup>2</sup> divided into 168 exploratory blocks, of which 34,049 km<sup>2</sup> correspond to 52 discovery assessment plans.



PERFORMANCE IN OTHER COUNTRIES

In countries other than Brazil we produce 145,900 bpd of oil and 16.5 million m<sup>3</sup> of natural gas per day, totaling 243,100 bpd.

PRODUCTION HIGHLIGHTS

In September, we started operating FPSO Cidade de Anchieta in the Baleia Azul field of Parque das Baleias in the portion of the Campos basin adjacent to the state of Espírito Santo. This platform’s production capacity is 100 bpd of oil and 3.5 million m<sup>3</sup> of natural gas per day and it produced 77,700 bpd of oil in December 2012. This FPSO’s production capacity has evolved faster than expected. It is intended for production from pre-salt layers in the Baleia Azul, Jubarte and Pirambu fields, in which we hold 100%.

EWTs were conducted in the Iracema area using FPSO Cidade de São Vicente in the pre-salt layer of the Santos basin. In the Campos basin, EWTs started in Espadarte and Oliva. The wells were connected to FPSO Cidade de Rio das Ostras.

## PROJECTS FOR 2013

For 2013, we intend to maintain the targets set in our business plan, with emphasis on the following systems that will be coming on stream:

- ▶ Baúna-Piracaba fields (Santos basin) – FPSO Cidade de Itajaí – with production capacity for 80,000 bpd of oil and 2 million m<sup>3</sup> of gas per day. This will be the area's first definitive system;
- ▶ Lula field (Santos basin) – Lula Nordeste pilot – FPSO Cidade de Paraty – located in the pre-salt layer, with capacity of 120,000 bpd of oil and 5 million m<sup>3</sup> of gas per day;
- ▶ Papa-Terra field (Campos basin) – P-61 (Tension-Leg Wellhead Platform -TLWP) and P-63 (FPSO) – these platforms will have combined processing capacity of 140,000 bpd of oil and one million m<sup>3</sup> of gas per day;
- ▶ Roncador field (Campos basin) – P-55 (semi-submersible) – will have capacity of 180,000 bpd of oil and process 6 million m<sup>3</sup> of gas per day.

In the pre-salt part of the Santos basin and in the Campos basin, plans for 2013 include five extended well tests (EWTs) and an early production system (EPS) using FPSO Dynamic Producer (EWTs of Franco 1 and Tupi Nordeste); FPSO Cidade de São Vicente (EWTs of Sapinhoá Norte and Lula Sul); FPSO Cidade de Angra dos Reis (Lula Central EPS); and FPSO Cidade de Rio das Ostras (EWT of Espadarte 3 in the post-salt layer of Campos basin).

## EXTRACTION COSTS

Average cost of extraction in 2012, calculated before government take, was US\$ 13.92 / boe and up 11% on the previous year, driven by high maintenance costs resulting from more numerous interventions in wells and subsea operations arising from our efficiency program (Proef) for operating units in the Campos and Rio de Janeiro basins. In addition, higher operating costs resulted from rising personnel costs and the appreciation of the US dollar, which impacted charter costs. In BRL, our average extraction cost was R\$ 27.22 / boe, up 28% from 2011, with the dollar's appreciation against the Brazilian real.

On including government take, cost of extraction rises to US\$ 33.83 / boe, 4% up on 2011 due to reclassification to higher rates of "special participation" in the Jubarte, Marlim Sul and Lula fields while production and the domestic oil reference price in dollars remained unchanged. On converting these amounts to BRL, the number reaches R\$ 66.16 / boe, up 20% on the previous year, driven by a higher reference price for domestic oil in BRL due to the USD's appreciation.

## PLATFORMS

In 2012, we had 126 platforms producing, of which 75 were fixed and 51 floating. Only one of them is located in a country other than Brazil, in the United States.

A particular highlight is FPSO Cidade de Anchieta, producing, storing and offloading oil and gas, which started operations exclusively in pre-salt layer production in the Campos basin. Gas produced from this unit was transported through a new pipeline (Gasoduto Sul-Norte Capixaba) laid from the platform to the Cacimbas Gas Treatment Unit (UTGC).

Another highlight was the successful completion of Brazil's first deck mating (dry-dock coupling of hull on semi-submersible platform columns). The operation was executed on the P-55 platform at the Rio Grande shipbuilding complex. The platform will be transported to Roncador field in the Campos basin to start operating in 2013.

A significant investment was made to develop projects for production in the post-salt layer of the Campos basin, including the Papa-Terra field, where P-61 and P-63 platforms will be installed in the final construction phase. Module 4 of the Roncador field will start producing in 2014 using P-62.

For the coming year, two new production systems will be operating in the Santos basin: FPSO Cidade de São Paulo in the pre-salt Sapinhoá field; and FPSO Cidade de Itajaí in the shallow post-salt Baúna and Piracaba fields.





## Refining and marketing

Our production of oil products in Brazil reached record levels in 2012. This successful outcome was due to higher levels of operational efficiency at our refineries.

### PRODUCTION OF DERIVATIVES

Our 12 refineries in Brazil processed 1.94 million bpd of feedstock, with 96% average capacity utilization and produced 1.99 million bpd of oil. Of the total volume of oil processed, 82% came from Brazilian fields.

Outside Brazil, our three refineries in the US, Japan and Argentina, processed 161,800 bpd of oil, which corresponds to 70% utilization of their capacity of 230,500 bpd for the year.

| PRODUCTION OF DERIVATIVES (thousand barrels per day) |                |                |
|--|----------------|----------------|
|  | 2012           | 2011           |
| <b>PRODUCTION OF DERIVATIVES</b>                     | <b>2,173.8</b> | <b>2,009.5</b> |
| Brazil   | 1,997          | 1,862          |
| Other countries                                      | 176.8          | 147.5          |
| <b>NOMINAL CAPACITY UTILIZATION</b>                  |                |                |
| Brazil   | 96%            | 92%            |
| Other countries                                      | 70%            | 67%            |
| <b>SHARE OF BRAZILIAN OIL</b>                        | <b>82%</b>     | <b>82%</b>     |

## REFINING FACILITIES

In 2012, our refineries in Brazil had installed capacity for 2.02 million bpd. In other countries, in Japan in particular, the Nansei Sekiyu refinery processed a record 95,000 barrels per day for the first time since we took over in 2008.

The Abreu e Lima refinery (Ipojuca, Pernambuco) will have capacity to process 230,000 bpd of heavy oil and up to 162,000 bpd of low-sulfur diesel (10 parts per million - ppm). It will also produce liquefied petroleum gas (LPG), petrochemical naphtha, fuel oil for ships, and petroleum coke. The first production unit is planned for November 2014 and the second for May 2015.

We will be building two refineries to produce premium oil derivative products (high quality, low sulfur), thus obtaining more value from Brazilian oil. These refineries produce basically medium distillates such as diesel and aviation kerosene, and coke, which will be partly consumed by the units themselves to generate steam and power. If necessary, both can also produce asphalt for the domestic market.

The Premium I refinery in the municipality of Bacabeira (MA), about 60 km from the state capital, has capacity to process up to 600,000 bpd of oil. Its purpose is to process Brazilian oil and produce S-10 diesel (high quality and very low sulfur content) to international specifications. The facility will be built in two stages, each delivering 300,000 bpd capacity, and operations will start as of 2017. The project will include a port terminal handling oil and liquid derivatives.

The Premium II refinery, with operations planned for 2018, in the Port of Pecém Industrial Complex (CIPP) in the municipality of Caucaia (CE), will have capacity to process 300,000 bpd of oil. The refinery will be connected to the terminal port of Pecém by an 11-kilometer pipeline.

The Rio de Janeiro Petrochemical Complex (Comperj) under construction in Itaboraí (RJ) is due to start operating in April 2015, with processing capacity for 165,000 bpd of oil. Its second refining section, currently at the assessment stage, will have capacity for 300,000 bpd of oil. This refinery will produce diesel, LPG, jet fuel, naphtha, fuel oil, coke and sulfur to supply the Brazilian derivatives market and provide raw material for petrochemical plants.

## SALES OF DERIVATIVES

Our Brazilian sales reached 2.29 million bpd of oil, up 7% on 2011. Diesel oil volume sales rose 6% due to significant retail growth, while sales of LPG remained unchanged.

The derivative posting the highest sales growth was gasoline, with sales 17% up on the previous year. This was mainly due to growing numbers of flex-fuel vehicles, associated with low ethanol production, which led to the relative prices of ethanol and gasoline being more favorable to gasoline consumption.

Naphtha sales were down 1% due to market contraction in the petrochemical chain. Aviation fuel sales rose 5% on the previous year with more international flights and more small Brazilian airlines.

**OUR BRAZILIAN  
SALES REACHED 2.29  
MILLION BPD OF OIL,  
UP 7% ON 2011.**



Fuel oil consumption rose 2% due to emergency dispatching of thermoelectric plants in the last quarter of the year. This extra demand from thermoelectric plants offset reduced sales of fuel oil due to its substitution by natural gas in the thermoelectric and industrial segments.

Brazilian oil exports reached 364,000 bpd, which was down 16% on the previous year, mainly due to higher volume of Brazilian oil processed domestically and lower production. Exports of oil products totaled 184,000 bpd and were down 15%, reflecting higher demand for gasoline and fuel oil in the Brazilian market.

Brazil's oil imports were 346,000 bpd, which was down 4% on 2011, whereas derivatives imports rose 12% to a total 433,000 bpd. Gasoline sales rose due to increased consumption in Brazil reflecting rising vehicle numbers and lower consumption of ethanol. Despite increased production, imported gasoline volume reached 87,000 bpd, which was 102% higher than 2011.

Our trade balance showed a deficit of US\$ 10.7 billion, taking exports and imports of oil and oil products, excluding natural gas, liquefied natural gas (LNG) and nitrogenized products.

| <b>VOLUME SALES - BRAZILIAN DOMESTIC MARKET (thousand barrels per day)</b> |              |              |
|--|--------------|--------------|
|  | <b>2012</b>  | <b>2011</b>  |
| <b>OIL PRODUCTS</b>  |              |              |
| Diesel   | 937          | 880          |
| Gasoline   | 570          | 489          |
| Fuel oil   | 84           | 82           |
| Naphtha  | 165          | 167          |
| LPG  | 224          | 224          |
| AVK  | 106          | 101          |
| Other  | 199          | 188          |
| <b>TOTAL DERIVATIVES</b>   | <b>2,285</b> | <b>2,131</b> |
| Alcohols, nitrogenized, renewables and other                               | 83           | 86           |
| Natural gas  | 357          | 304          |
| <b>DOMESTIC MARKET TOTAL</b>   | <b>2,725</b> | <b>2,521</b> |

| <b>EXPORTS AND IMPORTS OF OIL AND OIL DERIVATIVE PRODUCTS (thousand barrels per day)</b> |              |             |
|--|--------------|-------------|
|  | <b>2012</b>  | <b>2011</b> |
| <b>Imports of oil and oil products</b>   | <b>779</b>   | <b>749</b>  |
| Imports of oil   | 346          | 362         |
| Imports of oil derivative products   | 433          | 387         |
| <b>Total exports of oil and oil derivative products<sup>(1)</sup></b>                    | <b>548</b>   | <b>652</b>  |
| Oil exports <sup>(2)</sup>   | 364          | 435         |
| Exports of oil derivative products   | 184          | 217         |
| <b>Net exports of oil and oil products</b>   | <b>(231)</b> | <b>(97)</b> |

(1) Includes exports in progress.

(2) Includes volumes of oil exports originating from the Downstream and Exploration & Production Business Areas.



## Petrochemicals and fertilizers

We operate in the petrochemical and fertilizer industry with the main objective of increasing production of petrochemicals and biopolymers, preferably through equity holdings in Brazil and other countries.

Sales revenues in the fertilizer sector reached R\$ 1.89 billion. A total of 848,000 tons of urea and 229,600 tons of ammonia were sold.

### PETROCHEMICALS

We reorganized our petrochemical portfolio, which had included the part spin-off of BRK Investimentos Petroquímicos S.A., parent company of Braskem SA, with proportional incorporation of part-payments shared by Petrobras and its wholly owned subsidiary Petrobras Química S.A. (Petroquisa).

Petroquisa was then merged into its parent to reduce management costs, obtain more agility and alignment on business decisions and simplify approval for investments.

With this merger, as well as that of Innova, the following operating companies became our subsidiaries, jointly controlled entities or associates in the petrochemicals sector (equity holdings as of December 31, 2012):

- ▶ Braskem S.A. (36.20%) – main products ethylene, polyethylene, polypropylene and PVC;
- ▶ Deten Química S.A. (27.88%) – produces raw material for detergents;
- ▶ Metanor S.A./Copenor S.A. (34.54%) – produces methanol, formaldehyde and hexamine;

- ▶ Fábrica Carioca de Catalisadores (50%) – produces catalysts and additives;
- ▶ Innova S.A. (100%) – produces ethylbenzene, styrene and polystyrene;
- ▶ Petrocoque S.A. (50%) – produces calcinated petroleum coke.

Braskem acquired Sunoco’s propylene purifying assets to strengthen its position in the North American market. Our Alagoas PVC plant was inaugurated with capacity to produce 200,000 tons per year, as was our Rio Grande do Sul butadiene plant with production capacity of 100,000 tons per year. The investments in these two units were R\$ 1 billion and R\$ 300 million respectively.

#### OUR PRINCIPAL PETROCHEMICAL INDUSTRY PROJECTS ARE:

- ▶ Companhia Petroquímica de Pernambuco (PetroquímicaSuape) and Companhia Integrada Têxtil de Pernambuco (Citepe), responsible for setting up the Suape petrochem complex, which will produce purified terephthalic acid (PTA), PET resin (polyethylene terephthalate) and textile polymers, and polyester filaments.
- ▶ Complexo Petroquímico do Rio de Janeiro (Comperj) – its petrochemical facilities will produce basic petrochemicals (ethylene and propylene), and thermoplastic and vinyl resins (polyethylene, polypropylene and PVC).
- ▶ Companhia de Coque Calcinado de Petróleo (Coquepar) – We will have a 45% interest in a petroleum coke calcination unit in Paran, with total production capacity for 350,000 tons per year.

## FERTILIZERS

We have two fertilizer plants: Fafen-BA and Fafen-SE (abbreviated forms of “Bahia nitrogenized fertilizer factory” and Sergipe ditto). Both produce urea, ammonia, nitric acid, carbon dioxide and Arla 32 (urea solution diluted in demineralised water at a concentration of 32.5%, used to reduce emission of pollutants from heavy-duty diesel engines).

On December 25, Fafen-BA and Fafen-SE beat their joint record for urea production to reach 842,871 tons. The previous record was 842,498 tons, in 1999. The excellent results obtained in 2012 reflect higher levels of operational reliability obtained through commitment from the entire workforce producing safely and competitively.

| AMMONIA AND UREA PRODUCTION (thousand tons) |                |                |                |                |                |
|---|----------------|----------------|----------------|----------------|----------------|
|   | 2008           | 2009           | 2010           | 2011           | 2012           |
| Urea  | 752.7          | 625.2          | 758.4          | 835.6          | 854.8          |
| Ammonia                                     | 693.4          | 544.7          | 668.9          | 733.1          | 716.6          |
| <b>TOTAL</b>                                | <b>1,446.1</b> | <b>1,169.9</b> | <b>1,427.3</b> | <b>1,568.7</b> | <b>1,571.4</b> |

a) There was no nitric acid production in 2012.

In December, we also signed an agreement to buy Araucária Nitrogenados S.A., located in Araucária, Paraná. Its production capacity is 700,000 tons of urea, 475 tons of ammonia and 450 m<sup>3</sup> / year of Arla 32. As raw material, it uses residual asphalt supplied by Presidente Getúlio Vargas refinery (Repar) in Araucária.

Still under construction, our future nitrogenized fertilizer plant in Três Lagoas (MS) – UFN III (acronym for nitrogenized fertilizer unit) – will have capacity for 1.2 million tons per year of urea and about 70 tons per year of ammonia as of September 2014. Our plant in Linhares (ES) – UFN IV - Gas-Chemical Complex will deliver an annual output of 755,000 tons of urea, 42,000 tons of melamine, 721,000 tons of methanol, 211,000 tons of acetic acid and 26,000 tons of formic acid as of 2019. Our plant in Uberaba (MG) – UFN V, currently at the basic engineering stage, will aim to produce 519,000 tons per year of ammonia primarily to meet regional demand, due to start operating in 2016.

We have two factory expansion projects underway. Fafen-SE is building an ammonium sulfate plant to supply 303,000 tons per year using surplus sulfuric acid produced by the Abreu e Lima refinery. It is scheduled to start operating in October 2013. In June, Fafen-BA concluded the second stage of construction for its Arla 32 project, scaled to produce 200,000 m<sup>3</sup> per year, to be used by heavy-duty vehicle diesel engines (buses and trucks) to reduce NOx atmospheric emissions.





## Transport

Petrobras Transporte S.A. (Transpetro) is our subsidiary for transportation and storage of oil, oil derivative products, natural gas and biofuels. Transpetro is present in most states in Brazil as the country's biggest fuel logistics company. It operates 7,500 km of oil pipelines and 7,360 km of gas pipeline, and has 48 terminals - 20 on land and 28 on waterways - and 60 ships.

Transpetro handles the energy vitally needed for development in Brazil and shares its experience with other countries. In Argentina, for example, it provides advice on shipping, pipelines, and terminals through an agreement with Petrobras Energia S.A. (Pesa).

### VOLUMES TRANSPORTED

In 2012, 46.9 million tons of oil and oil derivative products were transported by ship. This volume was 7.6% up on 2011. Transpetro pipelines and terminals handled 774.4 million m<sup>3</sup> of liquids, 3.6% more than in the previous year and an average of 60.7 million m<sup>3</sup> of natural gas per day, which was 18% higher than the previous year's total. Its peak volume of gas transported was 80.7 million m<sup>3</sup> per day.

## VESSELS AND PIPELINES

As Latin America's largest shipper, Transpetro is renewing its fleet. Its Fleet Modernization and Expansion Program (Promef) plans to build 49 new tankers. This will be a turnaround for Brazil's shipbuilding industry, which has stagnated since the 1980s. The Promef program is part of the federal government's Growth Acceleration Program (PAC).

Promef aims for modern internationally competitive shipyards using 65% locally made parts and materials in the first phase and 70% in the second.

Five ships have been launched to date, one built in the state of Pernambuco and four in Rio de Janeiro. The vessels' names honored leading figures from Brazilian history: João Cândido, Celso Furtado, Sérgio Buarque de Holanda, Rômulo Almeida, and José Alencar. Two ships have been delivered and are operating - Sérgio Buarque de Holanda (capacity 48,500 tons deadweight, for oil products) and João Cândido (capacity of 157,700 tons, for crude oil).

The shipbuilding program is also creating jobs - over 15,000 have been directly employed, and this number is estimated to reach 40,000 direct and 160,000 indirect jobs. More announcements of new shipbuilding projects are due, in addition to fitting and expanding the shipyards themselves. Other segments that have been stimulated include shipbuilding parts and steel and metallurgy products used by shipbuilders.

Transpetro's expansion plans include oil and it has started pre-operating two pipelines for LPG and natural gas, which connect the Cacimbas processing complex in northern Espírito Santo to the new Barra do Riacho terminal. This terminal will have store capacity for 109,600 m<sup>3</sup> of products and it will assure feasibility for oil produced by FPSO Cidade de Anchieta.

## WATERWAYS

Transpetro plans to serve Brazilian demand for biofuel transport, particularly ethanol, through the Tietê-Paraná river basin, as part of its waterway program (Promef Hidrovia). A fleet of 20 convoys, each consisting of towboat and four flat barges with individual capacity of around 7600 m<sup>3</sup>, will boost logistics efficiency by shipping out production from the Midwest and Southeast regions of Brazil, thus generating economic and environmental advantages.

For the same load and distance, waterway transport emits one quarter of the carbon dioxide and burns 20 times less fuel than road transport. Each convoy has the same load capacity as 172 trucks or 86 rail cars. The system is due to reach maximum capacity in 2015 when all convoys will be operating to handle 4 million m<sup>3</sup> per year, thus eliminating the need for 80,000 truck journeys per year.

**THE SHIPBUILDING PROGRAM IS ALSO CREATING JOBS - OVER 15,000 HAVE BEEN DIRECTLY EMPLOYED, AND THIS NUMBER IS ESTIMATED TO REACH 40,000 DIRECT AND 160,000 INDIRECT JOBS.**





# Distribution

Our Petrobras Distribuidora subsidiary markets and distributes petroleum products throughout Brazil. Since 1974, it has been Brazilian market leader for distribution of petroleum products and biofuels.

To hold on to its leadership in Brazil and make Petrobras the brand of choice for Brazilian consumers, it invested R\$ 1.3 billion, mostly spent on expanding logistics capacity to support the domestic market's growth.

## FUEL MARKET SHARE

In 2012, our volume sales of 51.4 million m<sup>3</sup> were up 4.6% on the previous year, with net operating revenues at R\$ 80.1 billion and net income R\$ 1.9 billion. As domestic fuel market leader, our share was 38.1% and our chain of 7,641 service stations, including own-brand and others, posted record sales of 4.7 million m<sup>3</sup> in October.

PETROBRAS DISTRIBUIDORA - VOLUME SALES (millions of m<sup>3</sup>)



## INVESTMENTS IN DISTRIBUTION

In line with its strategy for retaining its leadership in the Brazilian market for distribution of petroleum products and biofuels, the Petrobras Distribuidora subsidiary invested R\$ 713 million to maintain and expand logistics infrastructure and R\$ 177 million to develop and modernize its chain of service stations. It also made investments in gas distribution and energy sales in the consumer, aviation, chemicals and asphalt product segments.

Its Liquigás subsidiary for liquefied petroleum gas distribution spent R\$ 184.9 million to maintain its LPG distribution infrastructure.

Investments in distribution were up 16.8% on the previous year due to growing consumption of oil products in Brazil and the consequent logistical challenges, particularly in the Southeast, North and Midwest. Additional investment in fuel distribution has been required because the composition of diesel oil was altered to reduce atmospheric emissions of sulfur by about 72% by end-2013.

Other 2012 highlights were the construction of two distribution bases - Cruzeiro do Sul (AC) and Porto Nacional (TO) - and the modernization and expansion of the lubricant plant in Duque de Caxias (RJ), as well as the completion of the Barac I floating pier in Caracaraí (RR). Investments were also needed to adjust operating facilities to market S-10 diesel.

## SERVICE STATION CHAIN

Petrobras Distribuidora has a chain of 7,641 service stations covering all areas of Brazil. In 2012, investments were made in construction, equipment and signage, with expanded convenience services – BR Mania and Lubrax +. The new Premmia loyalty program allows participants to accumulate points when filling tanks, or making purchases at BR Mania stores, or Lubrax + and Lubrax Center oil changes. Points may be redeemed for discounts on products and other benefits such as access to events we sponsor.

We also have 866 service stations across Argentina, Chile, Colombia, Paraguay and Uruguay.



## Gas & Power

Investments in Gas & Power totaled R\$ 4 billion. Of this total, the amount supplied in Brazil was 39.5 million m<sup>3</sup> per day (not including natural gas liquids, gas used for the production process, well injections, and losses).

We generated an average of 2,699 MW for the National Interconnected System (SIN) from the 18 owned or leased thermoelectric plants (UTES), comprising our generating structure for the SIN, with 6,235.2 MW installed capacity.

Purchases of Bolivian gas through the Bolivia-Brazil pipeline reached 27 million m<sup>3</sup> per day (not including gas used in transport), and volume of Liquefied Natural Gas (LNG) regasified totaled 8.4 million m<sup>3</sup> per day.

### NATURAL GAS MARKET

In 2012, the supply of natural gas reached 74.9 million m<sup>3</sup> per day and was up 22% on the previous year. This increase was due to higher demand from the thermoelectric plants switched in by the National System Operator (ONS) due to low water levels at hydroelectric dam reservoirs.

## GAS PIPELINES

The length of our network of gas pipelines for natural gas is now 9,190 km.

In 2012, five city gates were completed and available for starting operations: PE Carmópolis II, in Sergipe, with capacity of 660,000 m<sup>3</sup> / day; PE Suape, in Pernambuco, with capacity of 1.2 million m<sup>3</sup> / day; PE Japeri II and PE Resende II, both in Rio de Janeiro, with capacity of 5.2 million and 1 million m<sup>3</sup> / day respectively; and PE Recap II, in São Paulo, with capacity of 800 000 m<sup>3</sup> / day.

Other projects now underway include: completion of a new gas pipeline, Gasoduto Gasfor II (Fortaleza – CE) – Horizonte-Caucaia section, length 83.2 km; raising gas processing capacity of the Tecab-Reduc system (Cabiúnas terminal - Duque de Caxias refinery) from 23 million m<sup>3</sup> per day to 28 million m<sup>3</sup> per day and Tecab's condensate processing from 4,500 m<sup>3</sup> per day to 6,000 m<sup>3</sup> per day; and nine city gates: PE Baixada Fluminense, PE Pindamonhangaba II, PE Guaratinguetá, PE Barra Mansa II, PE Aquiraz, PE São Mateus, PE Goiana II, PE Rio das Flores, and PE São Bernardo do Campo II.

## LIQUEFIED NATURAL GAS

In 2012, we had a total of 62 master sales agreements with various companies operating in the LNG market. We purchased 50 loads in special ships with cryogenic tanks to keep the product in liquid state - 45 of them received in Brazil and five resold in foreign markets - and we reexported six loads.

We started construction of our LNG regasification terminal in Bahia (TRBA), with regasification capacity for up to 14 million m<sup>3</sup> of natural gas per day. TRBA is our third LNG terminal in Brazil and will be on stream in 2013. The regasification tanker *Golar Winter* will be moved from our Baía de Guanabara regasification terminal (TRBGUA) to operate at TRBA.

To replace *Golar Winter*, we have chartered a regasifier to operate from December 2012 through May 2014, and another is currently being built and due to start operating in May 2014. The two vessels will enable us to harness TRBGUA's full natural gas injection capacity of 20 million m<sup>3</sup> per day.

## NATURAL GAS SALES

A new e-auction round for short-term natural gas sales was held in March 2012, still under the rules applied in 2011. In this auction, gas distribution companies signed short-term contracts (six months) totaling 8.2 million m<sup>3</sup> per day.

In September, a new short-term natural-gas sales model was introduced involving three monthly electronic auctions, to supply gas for the next one, two and three months. The first three auction rounds led to sales for October 2012 (7.3 million m<sup>3</sup> per day); November 2012 (7 million m<sup>3</sup> per day); December 2012 (7.1 million m<sup>3</sup> per day); January 2013 (1.3 million m<sup>3</sup> per day); and February 2013 (389,000 m<sup>3</sup> per day).

In order to reallocate volumes not consumed by the thermoelectric market, we started sales to the secondary market in 2011. This new type of sale is for industrial segment customers that do not use natural gas as their main fuel. In 2012, we had 14 supply contracts in effect totaling 2.43 million m<sup>3</sup> per day.

## NATURAL GAS DISTRIBUTION

We own holdings in 21 natural gas distribution companies in Brazil. In 2012, average volume of natural gas sold by distributor companies was 55 million m<sup>3</sup> per day, showing an increase of 15% on 2011, reflecting a 99% increase in consumption of gas-fired thermoelectric plants switched in by the grid operator (ONS).

Distribution companies in which we hold equity sold 28 million m<sup>3</sup> per day, which was 51% of the natural gas distribution market in Brazil. These companies posted 14% growth of volume sales on the previous year.

## ELECTRIC GENERATION

Electric generation in 2012 was up 313% on the previous year due to demand from the grid (ONS), meeting inflexibility commitments, supply of steam to customers and power exported to Uruguay.

### PETROBRAS - THERMOELECTRIC GENERATION (average MW)





## THERMOELECTRIC PLANTS

In 2012, our generating capacity reached 7,028 MW, including projects in which we are minority shareholders. We sold an average of 2,675 MW through the “free-market” arrangement.

We concluded work on a project at UTE Luís Carlos Prestes, in Três Lagoas (MS), which raised capacity from 252 MW to 386 MW. Another project completed in 2012 was the UTE Suape II plant in Cabo de Santo Agostinho (PE), with installed capacity of 380 MW.

Our project at UTE Sepé Tiaraju (Canoas - RS) continues with expansion planned for 2014 to raise capacity from 161 MW to 248 MW.

UTE Baixada Fluminense (Seropédica – RJ) is building a 530 MW capacity plant to supply a contract gained at the A-3 Energy Auction in 2011. It is due to be on stream in 2014.

Finally, construction started for the 1.1 MW Alto do Rodrigues photovoltaic power plant (Alto do Rodrigues - RN), due to start operating in 2013.







## Biofuels



Petrobras Biocombustível, our biofuels company, produces ethanol and biodiesel. Its mission is to produce biofuels safely, profitably and sustainably in Brazil and other countries, helping to lower greenhouse gas emissions and foster development in countries where it operates.

In 2012, funds allocated to biofuels totaled R\$ 299 million. Of this total, 71% was invested in the ethanol segment to boost supplies and grow market share. The biodiesel sector got 29% of these funds to expand capacity.

The subsidiary uses sustainability criteria for all its areas, activities and stages, from producing raw materials to marketing final products. Some highlights are its reduced catalyst use by altering operating procedures and modifying process variables, upscaling 12 heat exchangers capacity to reduce consumption of electricity and steam.

### BIODIESEL

Petrobras Biocombustível, the biofuel subsidiary, makes and markets biodiesel and related by-products such as glycerin, fatty acid, and gum. It also sells castor oil, soybean meal, castor bean, sunflower meal and sunflower oil obtained from vegetable oil extraction processes in our agricultural supply program.

## PRODUCTION

Petrobras Biocombustível has three biodiesel production plants in Candeias (BA), Quixadá (CE) and Montes Claros (MG), as well as two associated companies controlled by BSBIOS, in Passo Fundo (RS) and Marialva (PR). Total Petrobras biodiesel capacity is 765,000 m<sup>3</sup> per year. All biodiesel plants, owned or associated, bear the Social Fuel Seal in accordance with the guidelines of the National Biodiesel Production and Use Program. The Ministry of Agrarian Development authorizes the seal for biodiesel producers that include family farms in the biodiesel producing agricultural supply chain.

In the most recent ANP auctions held in 2012, Petrobras Biocombustível was top seller in the Brazilian market.

Two projects are being developed in Pará. Both will be using palm oil as raw material. The Pará project's biodiesel plant will have capacity to produce 220,000 m<sup>3</sup> per year for the Brazilian market, in particular the North region. The Belém project, in partnership with Galp Energia, will produce palm oil, which will be used as feedstock to make 270,000 tons per year of green diesel in Portugal, to be sold in Europe.

## AGRICULTURAL SUPPLY

Since it was founded, Petrobras Biocombustível subsidiary has been developing a program for family farms that grow oleaginous seeds as raw material for biodiesel production. Aligned with Brazil's Biodiesel Production and Use Program and to meet the legal requirements for use of the Social Fuel seal, the biofuel subsidiary has been structuring productive agricultural supply chains in the Brazilian semiarid region in particular, and also in the South of Brazil.

For the 2011–2012 harvest, about 33,700 family farms were registered in the agricultural supply program. Of this total, 26,131 participated fully in the crop, according to the standards of the Social Fuel Seal of the Ministry of Agrarian Development. A study to update agricultural strategy and ensure more sustainability for the business was also started in 2012. This will involve taking into account technical data and yields from the last three harvest seasons, and the focus will be on areas showing the best results and best growing conditions.

As part of its agricultural supply strategy, the Petrobras Biocombustível subsidiary holds 50% of the capital stock of Bioóleo Industrial e Comercial in Feira de Santana (BA), which has processing capacity for up to 65,000 tons of oleaginous plants annually, storage for 30,000 tons of grain, and tankage for 10 million liters of oil.

## ETHANOL



Through its jointly controlled subsidiary Nova Fronteira and associates Total and Guarani, Petrobras Biocombustível has holdings in ten ethanol plants in Minas Gerais, São Paulo and Goiás, and a plant in Mozambique, Africa. The three companies ended the 2012/2013 harvest season having crushed a total of 22.5 million tons of sugarcane to produce 822,000 m<sup>3</sup> of ethanol and 1.6 million tons of sugar, also selling 540 GWh of surplus electricity.

Cane straw and part of the bagasse, sugarcane cutting, and processing residues are used as raw materials for plants to produce power by direct combustion to heat boilers and generate steam that is then converted into electricity.

### HIGHLIGHTS

Petrobras' biofuel subsidiary holds 43.58% of the share capital of Total Agroindústria Canavieira S.A., which has an ethanol plant in Bambuí (MG), with annual crushing capacity for 1.2 million tons of sugarcane. R\$ 130 million are being invested to boost ethanol capacity and double the plant's annual sugarcane crushing capacity to 2.4 million tons. By expanding ethanol capacity to 206,000 m<sup>3</sup> per year, this will drive sales of surplus electricity generated from sugarcane bagasse from 30 GWh currently to 167 GWh per year.

In 2012, the biofuel subsidiary paid in R\$ 212.5 million to Guarani S.A., to subsequently hold 35.76% of its shares. The transaction arose from an investment agreement with Tereos Internacional S.A. for the acquisition of up to 45.7% of Guarani, with payments of up to R\$ 1.6 billion over five years. Guarani currently has seven units in São Paulo and one in Mozambique.

A total of R\$ 748 million is being invested to expand sugarcane processing, ethanol and sugar production, and cogeneration capacity by 2015. This will boost Guarani's current annual crushing capacity from 21.5 million to 24.6 million tons of sugar cane, taking its annual ethanol capacity to 1.1 million m<sup>3</sup> per year; sugar production capacity to 1.8 million tons per year; and surplus power for sale to 1,319 GWh per year.

The Petrobras Biocombustível subsidiary owns 49% of the share capital of Nova Fronteira Bioenergia S.A. The purpose of this partnership with the São Martinho Group is to raise ethanol production in Brazil's Midwest region. Its current annual of sugarcane crushing capacity is 3.4 million tons.

Nova Fronteira is planning plans to invest R\$ 720 million in the Boa Vista plant from 2013 through 2015. This will raise the plant's annual sugarcane crushing capacity to an estimated 8 million tons, thus potentially raising annual ethanol production from its current 211,000 m<sup>3</sup> to 700,000 m<sup>3</sup>. Surplus energy sales will likely increase from 265 GWh to 600 GWh per year.



## International operations

We invested R\$ 5 billion internationally, of which 91% was in exploration and production, and 9% in refining, petrochemicals, distribution, gas and power.

Our international operating strategy is based on leveraging our technical capability and geoscientific knowledge acquired from Brazilian coastal E&P to explore the West African coast and the Gulf of Mexico, focusing on the natural gas business to supplement gas supplies for the Brazilian market.

### HIGHLIGHTS

In the Americas, we have different scenarios. In Argentina, oil and gas production was down 2% on the previous year due to natural decline of mature fields. In Bolivia, natural gas production from the San Alberto, San Antonio and Itaú fields contributed to gas supplies in Brazil through the gas pipeline connecting the two countries. In Colombia, in addition to producing oil in onshore fields, exploration activities continued in offshore areas such as the Tayrona block. In Peru, we produce oil in Lot X, where we surpassed the local annual production target by contracting additional drill rigs. Development of production is continuing for lot 57 and operation in lot 58, both areas containing gas discoveries.

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We started production from Cascade and Chinook fields in the American Gulf of Mexico, connected to FPSO BW Pioneer. The FPSO model has been systematically and successfully used in Brazil and we were the first company to use it to develop an oil field in the Gulf of Mexico.

In Africa, we produce oil in Nigeria (Akpo and Agbami fields) and Angola (Block 2), totaling 52,100 bpd. We maintain exploration activities in Tanzania and 3D seismic surveys in Benin, and we are progressing exploratory interpretation in Gabon. In the Namibia exploratory area (Kabeljou-01), the well we drilled turned out to be dry, and the remaining potential of this block is still being assessed.

In Asia and Oceania, we have a refinery on the island of Okinawa, Japan, with processing capacity of 100,000 bpd of oil. In New Zealand, we decided to shut down operations, as we did not identify economic potential in the Raukumara basin oil and gas reserves after a 2D seismic survey.

In Europe, specifically Portugal, we are still at the exploratory stage in the Peniche and Alentejo basins, where interpretation is underway after seismic surveys.

# RESULTS AND CONTRIBUTIONS TO SOCIETY

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## Economic and financial results

Our consolidated net income in 2012 reached R\$ 21.2 billion, which was 36% less than in 2011 (R\$ 33.3 billion), corresponding to R\$ 1.62 per share. Our gross income was 8% less than in 2011, with growth of sales revenue and of cost of goods sold. Our operating profit fell 29% on the previous year, reflecting lower gross income and a 21% increase in operating expenses. Factors that contributed to these results included:

- ▶ Higher prices for exports and sales of oil products in the domestic market due to gasoline and diesel price increases and exchange-rate effects on prices of oil products linked to the international market;
- ▶ 8% growth in domestic demand, highlighting gasoline (17%), diesel (6%), jet fuel (5%), and natural gas (17%). This growing demand was partly offset by lower volume exports of oil due to lower production and higher volume processed;
- ▶ 8% increase in sales volume in the domestic market, which was strongly supplied by imports;
- ▶ Effects of dollar depreciation on imports of oil, oil products and government take;
- ▶ Higher depreciation and depletion due to new facilities starting operations;
- ▶ Higher freight costs due to higher volume sales;

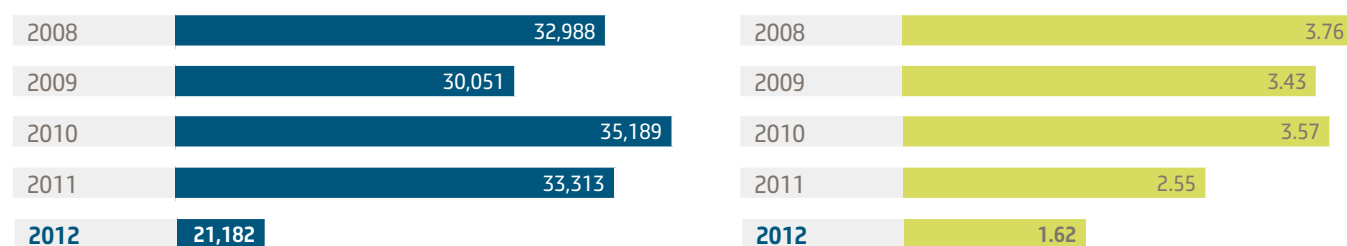
- ▶ Higher personnel expenses arising from the 2011 and 2012 collective bargaining agreements, and payments to technical service contractors, plus growth of the workforce;
- ▶ Oil exploration expenses impacted by more charge-offs of dry or subcommercial wells;
- ▶ Expenses arising mainly from higher losses in legal actions.

Our operating cash flow (EBITDA) was R\$ 53.2 billion. However, our net financial income (revenue less expenses and monetary and exchange-rate variations, net) was negative in the year, reaching R\$ 3.7 billion, primarily due to the effects of dollar depreciation on higher net debt.

In 2012, we received R\$ 755 million in government subsidies and assistance.

Our US\$ 124.2 billion market capitalization is directly influenced by the performance of our shares, which ended the year down. This behavior was also seen in shares of companies with similar characteristics to ours. In Brazil, our common shares (PETR3) fell 15%, and preferred (PETR4) 9.17%. On the New York Stock Exchange (NYSE), where our ordinary (PBR) and preferred (PBR/A) receipts are traded, they fell 21.65% and 17.79% respectively.

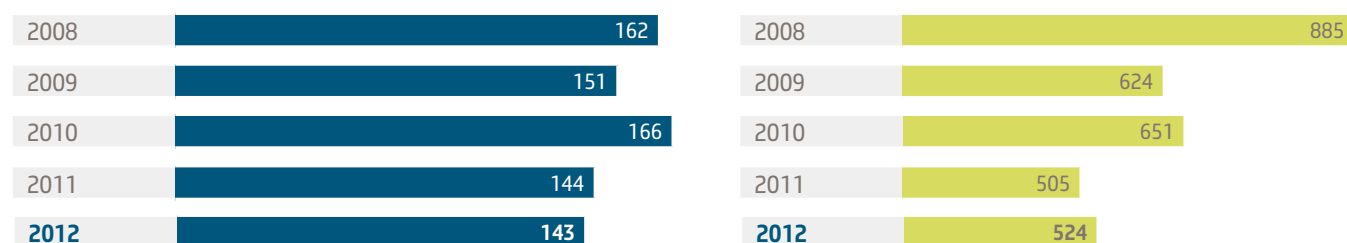
#### CONSOLIDATED NET INCOME



■ R\$ million      ■ R\$ / share

Net earnings attributable to Petrobras shareholders.

#### FINANCIAL VOLUME TRADED ON BM&FBOVESPA (daily average in R\$ million)



■ PETR3 (common shares)      ■ PETR4 (preferred shares)

## BUSINESS SCENARIO

The oil market in 2012 was marked by the unstable global economy, especially in the developed countries, and by United Nations sanctions against Iran, which led to a gradual decline in its production at the beginning of the year. Brent reached US\$ 111.58 per barrel – its highest nominal average ever recorded in the historical series, and 0.28% higher than the 2011 average quotation. In the course of the year, Brent ranged from US\$ 88.74 to US\$ 126.65 per barrel.

Some of the price increases were associated with the risk of intensifying conflicts involving Iran and the possibility of closing the Strait of Hormuz, a strategic route for global oil trade.

Despite the moderate growth in consumption expected for the following year, the Organization of the Petroleum Exporting Countries (OPEC) retained its 30 million bpd output target, since increased production from non-OPEC countries could meet this demand. One of the highlights outside OPEC was the strong development of unconventional production in the United States in 2012. However, many of the countries affected by the “Arab Spring” continued to report lower production volumes, which partly offset North American gains.

World oil consumption showed a moderate rise of 0.9% on 2011, driven by non-members of the Organisation for Economic Co-operation and Development (OECD) countries such as India and China. Among OECD countries, demand fell influenced by difficulties in Europe and doubts over North America’s economic recovery.

On stock markets, the end of the year saw positive trends in the international financial and economic scenario, with many global markets ending higher, such as the Ibovespa index (7.40%), in Brazil, or the Dow Jones (7.26%) in the United States.

| TRADE BALANCE (thousand barrels / day)       |             |             |
|--|-------------|-------------|
|  | 2012        | 2011        |
| <b>Total imports of oil and oil products</b> | <b>779</b>  | <b>749</b>  |
| Oil  | 346         | 362         |
| Oil derivative products                      | 433         | 387         |
| <b>Total exports of oil and oil products</b> | <b>548</b>  | <b>631</b>  |
| Oil  | 364         | 428         |
| Oil derivative products                      | 184         | 203         |
| <b>Net imports of oil and oil products</b>   | <b>-231</b> | <b>-118</b> |

| INDEBTEDNESS (R\$ million)                                      |                |                |
|---|----------------|----------------|
|   | 2012           | 2011           |
| <b>Total indebtedness</b>                                       | <b>196,314</b> | <b>155,554</b> |
| Short-term <sup>(1)</sup>                                       | 15,320         | 18,966         |
| Long-term <sup>(2)</sup>  | 180,994        | 136,588        |
| <b>Adjusted liquid assets</b>                                   | <b>48,497</b>  | <b>52,532</b>  |
| Liquid assets   | 27,628         | 35,747         |
| Federal government bonds (with maturities greater than 90 days) | 20,869         | 16,785         |
| <b>Net indebtedness<sup>(3)</sup></b>                           | <b>147,817</b> | <b>103,022</b> |
| Net debt / (net debt + shareholder equity)                      | 30%            | 24%            |
| <b>Total net liabilities<sup>(4)</sup></b>                      | <b>629,219</b> | <b>547,565</b> |
| Capital structure (net debt capital / total liabilities)        | 45%            | 29%            |

In December 31.

1) Includes financial leases (R\$ 37 million in 2012 and R\$ 82 million in 2011).

2) Includes financial leases (R\$ 176 million in 2012 and R\$ 183 million in 2011).

3) Total debt less adjusted liquid assets.

4) Total liabilities net of adjusted liquid assets.

## INVESTMENTS

We invested a total of R\$ 84.1 billion, which was 16% more than in 2011. Highlights included funds allocated to Exploration and Production (51%) and Supply (34%). In E&P, our investments focused on developing production in the pre-salt and post-salt fields, maintaining production in older fields and improving logistics infrastructure and technology.

Of the amount allocated to Supply, most of it - R\$ 21.7 billion - was invested in refining projects, such as the Abreu e Lima refinery and first refining train of Rio de Janeiro Petrochemical Complex (local acronym Comperj).

| INVESTMENT (R\$ MILLION)   |               |             |               |             |
|----------------------------|---------------|-------------|---------------|-------------|
|                            | 2012          |             | 2011          |             |
| Exploration and Production | 42,970        | 51%         | 34,251        | 47%         |
| Downstream                 | 28,860        | 34%         | 27,117        | 37%         |
| Gas & Power                | 4,166         | 5%          | 3,848         | 5%          |
| International              | 5,098         | 6%          | 4,440         | 6%          |
| Distribution               | 1,307         | 2%          | 1,157         | 2%          |
| Biofuels                   | 299           | -           | 503           | 1%          |
| Corporate                  | 1,437         | 2%          | 1,230         | 2%          |
| <b>Total</b>               | <b>84,137</b> | <b>100%</b> | <b>72,546</b> | <b>100%</b> |

## FINANCING

Despite macroeconomic fluctuations and uncertainties in Europe, our creditworthiness was recognized by banks, export credit agencies, and investors, thus assuring favorable costs and terms payment for financing our activities. On this basis, the levels of liquidity required for our investment plan were maintained.

Funding totaled the equivalent of US\$ 10.8 billion in the domestic and international capital market, through bond issues, plus US\$ 5.5 billion from banks. Brazilian Development Bank (BNDES) loans amounted to the equivalent of US\$ 2.4 billion. Financing from export credit agencies totaled US\$ 878 million.

## DISTRIBUTION OF VALUE ADDED

Our consolidated value added distributed in 2012 reached R\$ 181.8 billion, 0.4% more than the previous year. Of this amount, 57% went to the government (taxes, charges and contributions), 5% to shareholders (interest on own capital and dividends), 18% to third parties (interest and rents), 13% to employees (including direct compensation, benefits and Severance Fund - FGTS), and 7% was retained.

| ADDED VALUE STATEMENT - CONSOLIDATED PETROBRAS SYSTEM (R\$ million) |                  |             |                  |             |
|---|------------------|-------------|------------------|-------------|
|   | 2012             |             | 2011             |             |
| <b>Revenues</b>   | <b>426,661</b>   |             | <b>379,716</b>   |             |
| Products and services sales and other revenues                      | 353,066          |             | 312,841          |             |
| Losses on doubtful debt   | (76)             |             | 22               |             |
| Revenues related to construction of assets for use                  | 73,671           |             | 66,853           |             |
| <b>Inputs acquired from third parties</b>                           | <b>(230,722)</b> |             | <b>(188,745)</b> |             |
| Raw materials and products for resale                               | (121,064)        |             | (95,484)         |             |
| Energy, outsourced services and other                               | (86,634)         |             | (70,145)         |             |
| Tax credits on inputs purchased from third parties                  | (21,277)         |             | (21,292)         |             |
| Loss on recovery of assets  | (1,747)          |             | (1,824)          |             |
| <b>Gross value added</b>  | <b>195,939</b>   |             | <b>190,971</b>   |             |
| <b>Retentions</b>   | <b>(21,766)</b>  |             | <b>(17,739)</b>  |             |
| Depreciation, depletion and amortization                            | (21,766)         |             | (17,739)         |             |
| <b>Net value added produced by the company</b>                      | <b>174,173</b>   |             | <b>173,232</b>   |             |
| <b>Value added received in transfers</b>                            | <b>7,616</b>     |             | <b>7,849</b>     |             |
| Equity earnings on investments                                      | 84               |             | 386              |             |
| Financial income - including monetary and exchange-rate variations  | 7,241            |             | 6,543            |             |
| Rents, royalties and other  | 291              |             | 920              |             |
| <b>Value added to distribute</b>                                    | <b>181,789</b>   |             | <b>181,081</b>   |             |
| <b>Distribution of value added</b>                                  |                  |             |                  |             |
| <b>Employees and management</b>                                     | <b>23,626</b>    | <b>13%</b>  | <b>20,464</b>    | <b>10%</b>  |
| Direct compensation   | 16,621           | 9%          | 15,073           | 8%          |
| <i>Salaries</i>   | 15,616           | 9%          | 13,513           | 7%          |
| <i>Profit sharing</i>   | 1,005            | 1%          | 1,560            | 1%          |
| Benefits  | 5,997            | 3%          | 4,530            | 2%          |
| <i>Advantages</i>   | 937              | 1%          | 823              | 0%          |
| <i>Retirement / pension plan</i>                                    | 2,480            | 1%          | 1,526            | 1%          |
| <i>Health plan</i>  | 2,580            | 1%          | 2,181            | 1%          |
| Severance Fund (FGTS)   | 1,008            | 1%          | 861              | 0%          |
| <b>Taxes</b>  | <b>104,343</b>   | <b>57%</b>  | <b>103,982</b>   | <b>58%</b>  |
| Federal (including government take)                                 | 58,228           | 32%         | 61,098           | 34%         |
| State-government taxes  | 39,508           | 22%         | 36,358           | 20%         |
| Municipal taxes   | 217              | 0%          | 186              | 0%          |
| Other countries (includes government take)                          | 6,390            | 3%          | 6,340            | 4%          |
| <b>Financial institutions and suppliers</b>                         | <b>32,861</b>    | <b>18%</b>  | <b>23,525</b>    | <b>13%</b>  |
| Interest, monetary and exchange variation                           | 18,394           | 10%         | 13,781           | 8%          |
| Rental and freight/charter expenses                                 | 14,467           | 8%          | 9,744            | 5%          |
| <b>Shareholders</b>   | <b>20,959</b>    | <b>12%</b>  | <b>33,110</b>    | <b>19%</b>  |
| Interest on shareholders' equity                                    | 8,876            | 5%          | 10,436           | 6%          |
| Dividends   | -                | 0%          | 1,565            | 1%          |
| Non-controlling shareholders  | (223)            | 0%          | (203)            | 0%          |
| Retained earnings   | 12,306           | 7%          | 21,312           | 12%         |
| <b>Value added distributed</b>                                      | <b>181,789</b>   | <b>100%</b> | <b>181,081</b>   | <b>100%</b> |





## Contribution to economic development

Our economic contribution in the form of taxes and social contributions totaled R\$ 73 billion in 2012. Government take (royalties, special share and retention of area) in Brazil was up 15% on 2011, due to a 15% increase in the average reference price of oil, which reached R\$ 192.73 per barrel, against R\$ 168.07 per barrel in the previous year. This growth was driven by the 17% depreciation of the Brazilian real against the US dollar.

Our Local Content Management program sought to leverage the competitiveness of domestic industry for goods and services to supply our requirements in the period, thus combining delivery dates and costs commensurate with best practices in the market. The program's actions will maximize local content on a competitive and sustainable basis, thus stimulating development of markets in which we operate.

### **BRAZILIAN INDUSTRY**

Brazil's government has been implementing local-content policy in the oil and natural gas sector to boost domestic industry's share of goods and services on a competitive and sustainable basis, thus helping to create more employment and income in Brazil. In this scenario, the National Oil and Natural Gas Industry Mobilization Program (Prominp) aims to create oil and gas sector related jobs through training projects. The program's activities are aligned with policies developing local content for our projects, thus



stimulating Brazilian industry and fostering the development of regional enterprises in the oil and gas supply chain. Therefore we may employ this skilled labor for our activities.

Between drilling rigs, production platforms and ships, we ordered 137 units from Brazil's shipbuilding industry for our priority activity of oil production. Our relations with industry include dozens of shipyards located all along the coast of Brazil. We have orders due to be built in Brazilian shipyards by 2020, including 38 production platforms, 28 offshore drilling rigs, 49 tankers and 568 support vessels. We are also investing to develop professionals for the shipbuilding and offshore industry.

Hiring local labor is standard practice in our operating units and projects in Brazil. For broad-scoped long-term contracts, suppliers hire workers in the region covered by these contracts. Due to the diversity of countries in which we operate, there is no one single guideline for hiring local labor in other countries. Companies under our management prioritize local workers while taking into account legislation in each country, and weighing requirements for the position and market requirements.

In procurement of goods and services, we prioritize Brazilian suppliers, in particular those located around our units. On this basis, we use our purchasing potential as a means of encouraging these suppliers markets to develop. In Brazil, we require a certain minimum local content for our projects and operations. This practice affords opportunities for companies registered in our system, which are mostly small and medium-sized businesses.

Technical, economic and legal requirements provide the mandatory criteria for including suppliers in our goods and services database; with health and safety and management requirements as ranking criteria.

## **OCCUPATIONAL QUALIFICATION**

Brazilian Professional Qualification Plan (local acronym PNQP) was structured in 2006 to meet demand for qualified personnel from the oil and gas industry. Free-of-charge courses under the aegis of Prominp are training thousands of professionals in Brazil, with the involvement of 44 educational institutions.

In 2012, we invested approximately R\$ 51 million in training about 18,000 people. Consolidating PNQP initiatives since 2006, we have invested R\$ 269.2 million in training for 92,000 professionals in 17 of Brazil's states. The plan also provides monthly grants for unemployed students, depending on their course, which may be elementary, secondary, technical or higher education, for 185 occupational categories.

To facilitate recruitment of skilled workers on courses and build closer relations with companies, the Prominp website has an online resume bank and around 79,000 people had registered by December. There were also 5,092 companies registered to gain access to resumes. Data from the Ministry of Labor's survey of employed and unemployed persons in November shows that 75.7% of those completing Prominp courses had obtained employment in the formal labor market.

**HIRING LOCAL  
LABOR IS STANDARD  
PRACTICE IN OUR  
OPERATING UNITS  
AND PROJECTS  
IN BRAZIL.**

At our refining units, we are providing more training together with Prominp initiatives. Since December, our construction contracts have included an optional item enabling the participation of trainees, thus providing more training opportunities for the recently graduated or trained, while boosting the supply of trained people in the labor market and employing more workers trained through the Prominp.

The Petrobras Human Resources Training Program provides scholarships for courses related to the industry, thus providing more trained professionals for the oil, gas, energy and biofuel sector. Through the Science Without Borders program, we offer scholarships abroad for undergraduate and postgraduate students working on issues related to this sector. By 2012, we had provided 291 scholarships and we aim to reach 5,000 in 2018.

As in other aspects of our international operations, the need to develop education initiatives to boost local employability varies greatly given the diverse environments in which we operate.





## Supplier management

Through our procedures for managing suppliers, we encourage their technological development in order to meet the needs of Brazilian industry.

Pursuant to Decree 2745 of 1998, we follow simplified bidding procedure regulations for purchases of goods and services. When awarding contracts, we prioritize bidding procedures based on our corporate records and simplified registration base. A single database available to the entire Petrobras System holds details of suppliers eligible to take part in bidding procedures. Our contracts with service providers rule out forced labor and prevent use of slave labor, child labor, or degrading working conditions.



## SUPPLIER SUPPORT AND DEVELOPMENT

We are investing to develop the supply chain in Brazil, consolidating demands and awarding long-term contracts with increasingly higher levels of local content requirements. Our focus on companies located in Brazil is due to their ability to contribute to the policy of increasing our projects' local content, in addition to the social effects of more employment and income. We are taking measures to increase the share of domestic suppliers in the oil, gas and power supply chain. We support the development of innovative Brazilian companies and invest in training initiatives. In 2012, we held 49 events (lectures, training sessions, and fairs) and we attended over 4,500 companies applying to supply goods or services. We also provided attendance through 12 stationary outreach units near areas in which consumers of our products and services are located.

In 2012, we created the Engineering Supplier Development program sought to help companies on our corporate register of engineering, technology and materials service providers to implement Health, Safety and Environment management systems complying with ISO 14001 and OHSAS 18001. At present, there are 40 companies participating in the program. The initiative has financial support from Prominp, and training courses are provided by the Industry Social Services (SESI) organization. Since the program was introduced, there has been a 60% increase in scores on Health and Safety criteria with registered companies improving their systems for managing environmental, health and safety anomalies or issues.

Since 2008, we have had an agreement with the Brazilian Micro and Small Enterprises Support Service (Sebrae) as another initiative to get competitive and sustainable companies engaged in the oil, gas and power supply chain in the regions in which we operate. At the end of 2012, there were 23 projects ongoing in 14 states.



The aim of our Make Progress (Progridir) program is to strengthen and broaden local content in our projects. This initiative, developed in partnership with Prominp, BNDES and major banks operating in Brazil, introduces a streamlined, standardized and low-cost procedure enabling our small and medium suppliers to obtain loans from these partner banks, secured by contracts to supply goods and services to Petrobras. Among the suppliers who applied for loans, 85% were successful. Their savings in terms of financial costs have averaged 20% to 40%, reaching 50% in some cases. By December, the program had facilitated R\$ 3.3 billion of credit through 677 loans involving 428 companies from 21 states in all regions of Brazil. Since August, new contracts have been registered on the Make Progress (Progridir) portal to further facilitate loan applications.

Our suppliers may also obtain credit through receivables investment funds (local acronym FDICs) as capital market instruments through which funds are advanced to companies secured by their contracts with Petrobras. We monitored the evolution of 12 receivables investment funds (FDICs) that operate with our suppliers and we take part in some of them as an investor. In 2012, R\$ 600 million was loaned to 233 companies through 1,263 transactions. Since their foundation, the FDICs have advanced R\$ 3.8 billion to 294 companies through 1,528 transactions.

We also have an agricultural supply program for family farms in Brazil's semi-arid areas, to ensure supplies of oleaginous feedstock for biodiesel under the National Biodiesel Production and Use Program. For the 2011-2012 harvest, the program involved 26,200 family farms in eight states of the semiarid areas; most of them with a low Human Development Index (HDI), as well as other municipalities in the states of Rio Grande do Sul and Minas Gerais.

Technical assistance was provided for all these farmers. We have agreements with entities working with these farmers to structure and improve soil conditions. A total of R\$ 40 million is due to be allocated under these agreements.

In most other countries in which we operate, we select local suppliers. Due to the diversity of countries, we do not have one single guideline. We comply with local legislation and consider market requirements. In the United States, our competitive hiring process for local operations assesses operational experience in the Gulf of Mexico, historical and current health and safety records, the supplier's market positioning, and their financial position. In Paraguay, we prioritize local companies whenever the domestic market meets demand for goods and services on the conditions required by Petrobras. In Mexico, some 80% of purchases are made locally. In Tanzania, we prioritize local suppliers as a way of supporting the government's initiative for utilization of local content in all services and materials purchased.



## DIALOGUE WITH SUPPLIERS

Dialogue with our suppliers takes place through institutional relationship channels, representative associations and other entities, as well as governments of countries in which we develop our activities and business. Our Supplier Channel allows registered companies, or those wishing to register, to find rules and regulations we have adopted, forms to be filled out, information on our contract procedures, and support services for current suppliers, among other items.

| DEMANDS RAISED THROUGH SUPPLIER CHANNEL AND OUR RESPONSES   |  |
|---|--|
| CONCERNS  | WHAT WE DID  |
| Distance from registering sector.   | More mobile and stationary outreach units for registration.  |
| Lack of information about loans (through the "Make Progress" program and receivables investment funds - FIDCs). | Provide information and direct links to the programs' websites. Mail shots on FDICs for all companies in our register. |
| Lack of access to our technical standards   | Access provided through our Supplier Channel.  |
| Questions about electronic invoices.  | Information on the use of electronic invoices on Supplier Channel.   |
| Questions related to Multidisciplinary Healthcare (AMS).  | Supplier Channel lists AMS accredited providers' extract (on the supplier support services page).                      |

## SELECTION AND ASSESSMENT

Companies interested in supplying products and services may be enrolled in our corporate register. They will subsequently be assessed on five criteria broken down into a set of requirements and indicators: compliance with legal obligations in relation to the market, government and society; evidence of solid economic conditions, to ensure the company's ability to continue and to conclude delivery of goods and/or execution of services; extent of implementation of safety, health and environment management system, ISO 14001 and OHSAS 18001 certification being recognized and encouraged; technical capacity, track record as supplier, technical scale and any specific qualifications; and commitment to quality and continuous improvement, encouraging ISO 9001 certification.

We constantly renew registration with annual updates and periodic reassessments of the performance of registered companies. Our analysis identifies points for improvement. For Brazilian companies, we also offer simplified registration, which is used for supplies of less complex or lower-value goods and services of local interest. Currently, there are over 21,000 companies approved for this type of supply.

Our contract procedures are mostly formalized through our electronic procurement channel (Petronect). In 2012, Petronect listed 130,000 companies, of which 41,000 received invitations. Our contract managers evaluate our suppliers' performance over the contractual duration. In the case of supplies of goods, any non-conformities related to meeting demand are recorded. We post these assessments on our website, and they may be used for companies applying for loans. In cases of suppliers underperforming, our Goods and Services Suppliers Subcommittee discusses possible sanctions, including barring any further transactions with them.

Contract procedures followed by our units in other countries reflect the dynamics of local markets while upholding our Code of Ethics in all cases.

Our selection of operational areas for the Agricultural Supply Program is based on the establishment of production centers reflecting technical standards, aspects of logistics, the suitability of microregions for oilseed production and strategic business criteria. Family farms must have a “family-farm eligibility” declaration provided by the Ministry of Agrarian Development; have at least two hectares of land for planting oilseeds and their small property crops must show diversity. The program encourages techniques such as intercropping with the region’s food chain crops, such as maize or beans.



# CENTRO DE INTEGRAÇÃO - COMPERJ



## Local development

One of our commitments to society involves ethical and transparent relationships as an essential means of fostering development in regions where we operate. We assess impacts of operations on communities when starting activities, in order to ensure mitigation and compensation. Our aim is to generate social, environmental and economic benefits, contributing to sustainable development and strengthen relationships with local suppliers through their engagement with the sector's supply chain.

### RELATIONS WITH COMMUNITIES

We recognize that our activities may affect the lives of communities around our implementing units and installations. We strive to establish respectful and transparent relations, minimizing negative impacts and identifying opportunities for local development, while respecting human rights and current legislation. We invest in programs based on dialogue with the communities around our implementing units.

Community needs are raised in community forums and public hearings. In areas around pipeline construction sites, we arrange home visits, meetings and forums. We also offer channels for opinions or complaints. Engineering has "Contact Us"; Transpetro has "Green Phone"; and Petrobras has its call center and Ombudsman Channel.





We are aware of the potential negative impacts affecting traditional peoples, such as indigenous communities, since our presence may affect their cultural and social conditions. Before starting activities, we obtain formal guidance from licensing agencies and the National Indigenous Foundation (FUNAI) in Brazil.

Some of our operations in other countries are located near indigenous peoples. In the province of La Convención in Cusco, Peru, our exploration activities for three wells in Lot 58 are in an area inhabited by around 20 native communities. There is also the presence of local fishermen of the Wayuu ethnic group in the area of the Jarara exploratory block in northern Colombia. In the regions of Bolivia where we operate, most of the communities are of peasant origin, but there are three communities of indigenous origin, of the Weenhayek ethnic group.

In 2012 we were not active in the area of influence of the Wichis and Crioulos in the Los Blancos area in Salta, Argentina, where we conducted exploration activities in 2011. We decided against proceeding with our project in New Zealand after seismic survey failed to identify sufficient reserves. In this case, we developed a special project exit plan which covered relations with Maori communities in the area of influence, and other stakeholders.

In several regions, we support projects related to indigenous peoples' rights. In 2012, there was no recorded instance of rights of indigenous peoples in Brazil or other countries being violated due to our operations.

We periodically and systematically engage with local communities, assess impact and develop programs, as in the case of our refining units in Brazil, where society and surrounding communities have channels to communicate social and environmental impacts and other relevant information.

We started planning for a single centralized system holding details of any territorial conflicts near our projects in order to ensure integrated management for any such issue. We are also developing methodology for social risk analysis, in order to incorporate aspects of social responsibility management to all phases of investment projects. On this basis, to take one example, it will be possible to characterize a local economy, which is decisive for our development initiatives in communities where our operations are located. This methodology is currently under discussion and will be submitted to the Executive Board in 2014.

Our approach to obtaining permission to use an area for a project is based on negotiation. We register properties affected and forward data to the internal instance, which assesses the market value of the property, taking into account bare land, improvements, crops, vegetation, loss of income, and other aspects. After assessment, negotiation is initiated and appropriate payments and signature of deeds are subsequently registered by public notary. If an agreement cannot be reached, an action for seizure of land is brought with the consequent court deposit and subsequent authorization to use the area. In 2012, the Comperj outfall affected an area of around 45 km<sup>2</sup>, and 33 families expropriated numbered 18 in Itaboraí and 15 in Maricá.

**WE PERIODICALLY  
AND SYSTEMATICALLY  
ENGAGE WITH LOCAL  
COMMUNITIES,  
ASSESS IMPACT AND  
DEVELOP PROGRAMS.**

In cases of decommissioning, we follow the requirements of legislation and regulatory bodies such as ANP Resolution 13 of 2011 on technical regulations for return of concession areas during the exploratory phase. In 2012, two of our exploration and production operations in Brazil were decommissioned or were in the process of decommissioning (both offshore). There were three cases in other countries: two in Bolivia, arising from the transfer of a 27 km pipeline in Ingre Block, and one in Colombia, due to reversion of fields, totaling 26,600 hectares in the Santiago field.

## ACCESS TO ENERGY

In Brazil, we ran several energy-saving awareness campaigns for communities. We continue to provide technical and administrative support for the Rational Use of Petroleum and Natural Gas Program (local acronym Conpet) attached to the Ministry of Mines and Energy, which encourages non-wasteful practices in the use of non-renewable resources by various sectors, especially homes, industrial plants, and transportation.

In Bolivia, our environmental education aims to reduce the use of lumber as fuel. In social investment projects, we address knowledge and shared responsibility for conserving the environment, including rational use of energy. In December, we signed an agreement with 23 radio stations in the area of influence of Petrobras Bolivia to broadcast educational microprograms on conserving the environment, rational use of energy and children and adolescents rights.

In Colombia, we have invested in the first phase of a rural electrification project in Las Delicias, an area of direct influence of the Katmandú exploratory project. The community benefited will also contribute with resources and take part in management of the project, along with the municipal government of Cabuyaro, to ensure that this benefit continues and extends to all families in this community. In Peru, we have an agreement to fund a study on obtaining gas for household use in Lot X.

## AGENDA 21

The Agenda 21 methodology consists of drafting a participatory action plan based on diagnosing a country, state, municipality or region in order to set sustainable development targets. Using this methodology, we developed the Petrobras Agenda 21 program to strengthen our relations with communities in areas of influence of our operating units, thus ensuring ongoing multisector dialogue and fostering sustainable development.

Based on a diagnosis of demands and vocations of communities and information collected at Agenda 21 local forums, local development projects are proposed. Each forum takes about 18 months to implement. During this period, plans are presented to communities that participate in the whole process, from the sensitization stage through to setting up forums. They are also inserted in specific initiatives, at round tables for dialogues to build proposals of mutual interest, and in other specific situations. We are currently supporting 203 communities located around our facilities. Most of them have concluded the sensitization phase and started the field research cycle.





At the Comperj petrochemical complex, Project Agenda 21 covers 14 municipalities in the project's direct and indirect impact area. In 2012, we started the stage of strengthening processes, with monitoring and advisory activities for the local forums. In addition to training for the leaders involved, we advised on revision of regulations and action plans for each local forum, also strengthening their communication processes. Several partnerships were established with institutions to ensure expansion of local processes and their regional integration. The initiative worked by building inter-thematic networks and the initial structuring of a Regional Committee of the local Agenda 21 groups.

We held over 80 workshops and several training and mobilization events. In addition, different social sectors held more than 200 meetings of Local Forums on their own account. We also held a regional event, which was attended by representatives of the four sectors involved (public, private for-profit, private nonprofit, and community), as well as elected mayors and councilors to discuss sustainable development and strengthening regional processes for Agenda 21. We maintain a portal and 14 specific websites, one for each local process, that focus on communication and mobilization for sectors in the region.

## EVALUATION OF IMPACTS

Benefits resulting from our activities in places in which we operate include development of the productive chain for local economies, higher tax revenues and royalties, new jobs, occupational training, environmental education, prospecting and restoring archaeological and historical heritage. However, negative impacts associated with operations are inherent to oil and gas industry activities all over the world. There may be negative impacts from seismic surveys or drilling, facilities and oil production, building natural gas distribution networks, operation and maintenance, product spills or leaks, volatile emissions, particulates and noise, and risks inherent in operating gas pumps or service stations. Offshore activities may lead to temporary areas of exclusion or restriction of the fishing activity and damage to fishermen's equipment.

When new projects are implemented, there may also be indirect impacts: migratory phenomena, expropriations, urban sprawl, heavy vehicle traffic, dust, solid waste and effluents, noise, intensified erosion and sedimentation in water tracts, fragmentation of vegetation, loss of habitat and displacement of wildlife, loss of employment when construction sites shut down and social risk by the region being economically dependent on the hydrocarbon sector, among others.

Therefore, our projects undergo environmental licensing processes conducted by government agencies, which include studies of possible environmental and socioeconomic effects. Having identified the vulnerabilities and potentialities of each region, we commission surveys such as Environmental Impact Reports (local acronym RIMA), which we submit to public hearings and meetings. We incorporate assessments of health and safety and environmental issues

**WE DEVELOPED THE  
PETROBRAS AGENDA  
21 PROGRAM TO  
STRENGTHEN OUR  
RELATIONS WITH  
COMMUNITIES  
IN AREAS OF  
INFLUENCE OF OUR  
OPERATING UNITS.**



at all stages of our projects, from concept and design through to their demobilization. Social and environmental impact management includes existing and future facilities, considering all stages of projects, selecting the best process technologies, most appropriate areas and environmental surveys integrated with government agencies' licensing procedures.

As an example, at the Abreu e Lima refinery, in Ipojuca, in the state of Pernambuco, we took measures to minimize the impacts of its installation. In Suape, our Dialogues for Social Development project in Ipojuca and Cabo de Santo Agostinho addresses health problems, teenage pregnancy, prevention of sexually transmitted diseases, violence against men and women, and abuse of alcohol and other drugs. In 2011 and 2012, we invested in infrastructure as part of the Cabo area health project, which runs awareness campaigns on health, domestic violence, and teenage pregnancy, and voluntarily carried out improvements to Hospital Mendo Sampaio, with emergency treatment for the community and monitoring for the health of the region's young people.

In relation to fishing communities, we would highlight the Coastal Planning Project of the Santana archipelago in the state of Rio de Janeiro. Based on the fishermen's empirical knowledge, we drafted maps of priority areas for fishing, to identify active interfaces between our projects and communities, guide decisions on fishing issues in the Campos basin, and seek solutions to conflicts over space around Imbetiba maritime pier. This initiative is part of the Petrobras Mosaic program, a voluntary community relations initiative through which we provided over 12,300 attendances, between 2008 and 2012.

In the biodiesel sector, we operate in the semiarid regions of Brazil and in the state of Pará, two of the regions with the country's lowest Human Development Index (HDI). Through development, we contribute to social and economic inclusion for family farms. To measure impacts and compile a socioeconomic diagnosis of biodiesel production in regions of influence, we are running a three-year research program, due to end in 2014, together with the Public Policy for Agriculture Observatory (local acronym Oppa) attached to the state of Rio de Janeiro's Rural Federal University (local acronym UFRRJ). In 2012, we interviewed over a thousand farmers in Brazil's semiarid regions.

We also developed several initiatives to ensure safe conditions for communities around pipelines, terminals and other facilities. Our service stations hold preventive campaigns focusing on points with potential impact for the environment. The principal initiatives: availability of emergency telephone; inclusion of communities in our units' Emergency Response Plans and leakage tests at service station facilities.

At operational units, our preventive measures include maintaining equipment for fewer stoppages and start-ups, and lowered atmospheric fumes and noise levels, which we constantly monitor. Our systems treat water used in our manufacturing process before returning it to the environment.

**OUR PROJECTS UNDERGO ENVIRONMENTAL LICENSING PROCESSES CONDUCTED BY GOVERNMENT AGENCIES, WHICH INCLUDE STUDIES OF POSSIBLE ENVIRONMENTAL AND SOCIOECONOMIC EFFECTS.**

## EXAMPLES OF IMPACT ASSESSMENT AND COMMUNITY DEMANDS

| PROCESS   | DESCRIPTION   |
|---|---|
| Environmental Assessment (ASA)  | Preliminary survey to diagnose and assess the environmental and socioeconomic characteristics in communities around future pipelines or stationary facilities in order to minimize any negative impacts and treat these effects together with the people involved. This study identifies the profile of the communities' social organization and relations of dependence on natural resources, among other aspects, mainly through direct surveys (interviews and perceptions of multidisciplinary technical team). |
| Community relations initiatives   | Stakeholders may visit units and spread information about operations and Emergency Response plans for residents in areas of influence. Complaints, reports and demands of communities are raised through various channels, such as Social Dialogue, community committees, Petrobras call center, 0800 (Transpetro and Comperj) and our Ombudsman Channel.   |
| Communication and Regional Plans  | Establishing a channel for dialogue on actual or potential impacts, positive or negative, originated by projects and for measures to mitigate, compensate and monitor these impacts.  |
| Pipeline Communication Plans  | The purpose is to inform residents in communities around pipeline routes about location, construction, and precautions concerning pipelines, including emergency response procedures.   |
| Fishing Compensation Plan   | Plan put in place if an Environmental Impact Assessment shows that significant impacts may affect artisanal fishing; when drilling in shallow areas; where there is intensive artisanal fishing; and when fishing is from fixed fishing platforms.  |
| Monitoring projects and participatory actions related to fishing activity | Monitor potential environmental and socioeconomic effects and develop initiatives in fishing communities around our projects.   |
| Environmental Education Programs  | Developed in partnership with IBAMA, in areas of influence of our operations, with participatory initiatives in communities.  |

## MAJOR CONCERNS RAISED AND MEASURES ADOPTED

| ISSUES AND CONCERNS RAISED   | MEASURES ADOPTED  |
|--|---|
| Environmental degradation and negative impacts arising from construction and electric, water and other utilities       | Prevention and mitigation of impacts on communities, such as: reclamation of degraded areas; conservation of wildlife and protected areas; archaeological diagnosis, prospecting and recovery; occupational training and community awareness; use of local roads during off-peak periods; partnerships to improve infrastructure; management of solid waste, effluents and atmospheric emissions, etc.  |
| Excavation, barring traffic, machinery, fire, intrusion, garbage and debris on pipeline routes                         | Visits, meetings and other awareness initiatives for residents around pipeline areas.   |
| Impacts of new developments on economic, social and environmental activities arising from operations of existing units | Systematic treatment at management meetings and Community Committee meetings for all community demands, providing feedback on opinions through relationship channels. Preventive communication initiatives for health, safety and environment, and simulated emergency situations with involvement of the community and government agencies.  |
| Impacts on fishing   | Regular meetings with fishing sector leaders. Identifying points of conflict and drafting Integrated Technical Proposal, which should be used as a reference to alter Nautical Chart 1507 and rules and procedures for this area. Contacts with the Ministry of Fisheries and Aquaculture to obtain General Fishing Registration and Fishing License, and with the Brazilian Navy to obtain Professional Fisherman card and vessel registration, and other institutional support. |
| Request for social projects  | Receiving and articulating proposals for project from third-sector organizations. Demands from social projects made operational by the Petrobras Development & Citizenship and Petrobras Environmental programs.  |
| Soliciting donations and funding for local NGOs, sponsorship of events (philanthropic activities)                      | Explain to applicants that we do not donate assets or acquire assets for donation. Forwarding NGO requests for alignment with corporate social responsibility programs. Conducting relationship sponsorships.   |
| Expectation in relation to social projects that we support, especially training for employment and income generation.  | Responding to community demands for skilling and job opportunities through various programs and projects, such as "Cidade da Solda" at Alberto Pasqualini refinery (RS) and Paulinia refinery (SP), started in 2012. The Educating Project for professional development of public school teachers in the region of Bacabeira (MA), where Premium I refinery is being located.   |



## Social investment

In 2012, we invested approximately R\$ 552 million in over 1,500 social, environmental, cultural and sports projects in Brazil and other countries where we operate. The year was marked by the joint holding of public selection procedures for the Petrobras Development & Citizenship and Petrobras Environmental programs. Over two years, they will be spending R\$ 102 million on environmental projects and R\$ 145 million on social projects. Announcements of selected initiatives are planned for the first quarter of 2013.

Our social and environmental work consolidates a proposal to go beyond transfer of financial resources to stimulate and strengthen community organization, sustainability, autonomy, social leadership and participation. Corporate programs such as the Petrobras Development & Citizenship program and the Petrobras Environmental program have a set of performance indicators and targets to monitor results on an integrated basis all over Brazil, including a computerized system for managing these indicators.



## SOCIAL PROJECTS



In 2012, our investments in social projects totaled R\$ 201.2 million. Many of the initiatives are located in Brazil, where we are running the Petrobras Development & Citizenship program.

| INVESTMENTS IN SOCIAL PROJECTS                  |                    |                       |
|---|--------------------|-----------------------|
| LINE OF ACTION                                  | NUMBER OF PROJECTS | AMOUNT (R\$ THOUSAND) |
| Income and Employment Opportunity Generation    | 156                | 50,953                |
| Education for Professional Qualification        | 105                | 60,841                |
| Guaranteeing Children and Adolescents' Rights   | 230                | 59,984                |
| Strengthening Social Networks and Organizations | 33                 | 7,733                 |
| Spreading Information for Citizenship           | 76                 | 20,819                |
| Other   | 16                 | 845                   |
| <b>Total</b>                                    | <b>616</b>         | <b>201,178</b>        |

Includes projects developed in Brazil and other countries.

Our social and environmental work is based on public policies related to the themes we have chosen for our programs. We highlight our contribution to the Ministry of Education's plan to end illiteracy by 2020, by supporting Mova-Brasil, developed in the ambit of the Petrobras Development & Citizenship Program. In 2012, the project was active in ten states and 204 municipalities; it involved approximately 41,500 people; 1,447 reading and writing teachers were trained and 2,990 partnerships agreed. From 2003 to 2012, over 195,000 people learned to read and write.

Also through the Petrobras Development & Citizenship program, we sponsored income generating projects involving collectors of waste materials for recycling. The projects are integrated with National Solid Waste Policy for social and economic inclusion of collectors. They also interact with other programs, such as Bolsa Família (family complementary income benefit) and Mova-Brasil. In 2012, 16 projects were developed in seven states and one nationwide. These projects directly served about 18,000 collectors of waste materials for recycling.

We held the second regional public selection procedure of Petrobras Communities Integration, which allocated R\$ 14 million to 74 social projects in communities around our units in São Paulo, Paraná, Santa Catarina and Rio Grande do Sul.





## ENVIRONMENTAL PROJECTS

Through Petrobras Environmental Program, we are currently sponsoring projects for dozens of river basins and ecosystems in six biomes - the Amazon region, the Atlantic Forest, Caatinga, Cerrado, Pantanal, Southern Pampas - as well as marine and coastal environments. The program's initiatives directly involved over 4 million people. We backed more than 1,500 partnerships, 1,910 publications, 8,895 courses and lectures and research on over 8,000 native species.

To participate in the program, environmental projects must be related to the theme "Water and Climate" and intervene in one of these themes: management of surface water tracts and groundwater; recovery or conservation of coastal species and marine and freshwater environments; and carbon sequestration and emissions avoided.

| INVESTMENTS IN ENVIRONMENTAL PROJECTS  |                    |                       |
|--|--------------------|-----------------------|
| LINE OF ACTION   | NUMBER OF PROJECTS | AMOUNT (R\$ THOUSAND) |
| Management of surface water tracts and groundwater                                 | 40                 | 22,199                |
| Recovery or conservation of coastal species and marine and freshwater environments | 44                 | 24,260                |
| Carbon sequestration and emissions avoided   | 38                 | 16,552                |
| Strengthening environmental organizations and their networks                       | 3                  | 433                   |
| Dissemination of information for sustainable development                           | 46                 | 31,272                |
| Other  | 8                  | 5,907                 |
| <b>Total</b>   | <b>179</b>         | <b>100,623</b>        |

Includes projects developed in Brazil and other countries.

## SPORTS PROJECTS

Our sport-focused sponsorships are divided into three major programs – Petrobras Sport & Citizenship, Petrobras Motor Sport and Petrobras Performance Sport.



The Petrobras Sport & Citizenship Program is Brazil's most comprehensive sport support initiative for social inclusion through sport. The program includes four segments: Performance Sport; Participation Sport; Brazilian Olympic Sports Memory; and Educational Sport.

In the Performance Sports segment, we highlight achievements at the London Olympics, where Brazilian boxers won three medals, after a 44-year period of no Olympic medals in boxing. The goal is Brazilian participation in the 2016 Olympics, with athletes training for five types of event: boxing, fencing, rowing, taekwondo and weightlifting.

In the Educational Sports segment, we highlight the results of Sporting Reference Centers in Rio de Janeiro, Bahia, and Amazonas, which partnered the Sport Education Institute to train 330 public school teachers in pedagogical practices for educational sport and we got 3,500 children and young people involved through inclusive sports practices. In 2012, in recognition of our

setting up these centers, we took first place in the category Best Friend of Educational Sport at the Entrepreneur Friend of Sport Award made by the Ministry of Sport. We also took first place in the local events for this award in Bahia and Amazonas. In 2013, we will begin activities related to Sporting Reference Centers in Rio Grande do Sul and Pernambuco.

With an investment of R\$ 30 million over two years, the program's public selection procedure started in 2011 and results were announced in 2012, showing that 32 projects from 17 states in Brazil were selected.

The Participation Sport segment encourages races, regattas, festivals, and cycling challenges. Brazilian Olympic Sports history revisits Brazil's record of great sporting achievements

The Petrobras Motor Sport program enables the use of motor sport in research and development for our products. Through the Petrobras Performance Sport Program, we support soccer and sponsor the A series of the Brazilian Championship and Brazilian Cup, which lends a high level of visibility to the brand.

| INVESTMENT IN SPORTS PROJECTS         |                    |                       |
|---------------------------------------|--------------------|-----------------------|
| LINE OF ACTION                        | NUMBER OF PROJECTS | AMOUNT (R\$ THOUSAND) |
| Performance Sport                     | 6                  | 23,941                |
| Motor Sport                           | 9                  | 4,928                 |
| Petrobras Sport & Citizenship Program | 50                 | 30,393                |
| Other                                 | 14                 | 1,965                 |
| <b>Total</b>                          | <b>79</b>          | <b>61,228</b>         |

Includes projects developed in Brazil and other countries.

## CULTURAL PROJECTS

In 2012, we held a public selection procedure to sponsor projects under the Petrobras Cultural program with a R\$ 67 million investment, the largest since the program started, sponsoring projects from all over Brazil in 11 cultural spheres on the lines of "Preservation and Memory", and " Production and Diffusion".



| INVESTMENT IN CULTURAL PROJECTS     |                    |                       |
|-------------------------------------|--------------------|-----------------------|
| LINE OF ACTION                      | NUMBER OF PROJECTS | AMOUNT (R\$ THOUSAND) |
| Production and Diffusion            | 359                | 89,645                |
| Preservation and Memory             | 51                 | 18,429                |
| Training and Education for the Arts | 71                 | 26,626                |
| Other                               | 196                | 54,253                |
| <b>Total</b>                        | <b>677</b>         | <b>188,953</b>        |

Includes projects developed in Brazil and other countries.

## **CARAVANS**

During the applying period of public selections for cultural, social, environmental or sports programs, our caravans answer questions and guide social organizations in developing projects. Our teams visit every state in Brazil and the Federal District holding free and open workshops to foster transparency and ensure equal access. We also have the Virtual Caravan, a feature designed to answer real-time questions from applicants about the public selection and how to format projects.

We organize social and environmental Caravans in 30 cities and 26 states, and the Federal District. A total of 60 physical-presence workshops were attended by approximately 5,000 participants. From October 18 through December 13, our Virtual Caravan provided 2,947 attendances.

The 2012 Petrobras Cultural public selection procedure attracted 16% more entries than the previous year's. Caravans travelled to 26 cities and visited every region in Brazil. Their meetings from August through October were attended by around 2,000 people.

## **VOLUNTARY WORK PROGRAM**

The Petrobras Voluntary Work program continues to provide multiple possibilities for engagement, development and continuing education in a network of some 4,600 registered volunteers organized into 64 committees.

Initiatives help to spread good practices and find opportunities to exercise solidarity, while respecting the autonomy of volunteers, who may participate in limited initiatives or those requiring more dedication and abilities. Volunteer work may be individual, through group activities, or supporting formatting social projects competing in volunteers initiatives competitions or attending training courses for volunteers held by Petrobras University.

One example taken from our 2012 initiatives was a campaign collecting children's books. Twenty-two volunteers took delivery of books and the campaign collected in 1,462 publications to donate to four institutions.

# EMPLOYMENT PRACTICES AND HUMAN RIGHTS

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## People management

We aim to attract, develop, train and retain people by investing in their talents and improving technical and managerial competences, and keeping up with the dynamic of the business in order to sustain competitive excellence. We invest in personal and professional development, and encourage continuous improvement through Petrobras University. Our constant aim is to ensure people have the autonomy needed to do quality work and do their job safely.

Our employee relations comply with legislation of countries in which we operate and International Labor Organization (ILO) conventions. Our corporate Human Resources; Safety, Environment and Healthy; and Social Responsibility policies include themes such as “principles for work” and “workforce commitment”.

In 2012, we held a public selection process to fill 1,521 positions in Brazil for applicants with secondary and higher education. Transpetro also held a public selection process for immediate admission of 145 professionals, 93 of them with secondary education qualifications, and 52 university graduates. Across the Petrobras System as a whole, 4,017 new employees passed in the competitive entrance procedure and were admitted in 2012.

For the fifth consecutive year, a survey conducted by consulting firm Aon Hewitt found that Petrobras was one of the “most sought after” companies to work for. The 2012 survey results showed us well ahead of other companies in terms of votes. When asked which company they would prefer to work for, over



2,000 people chose Petrobras. Another survey by consultants Cia de Talentos elected us the “young people’s dream company”. One by DMRH consultants mentioned us as “the executives’ dream company”.

## WORKFORCE



We ended 2012 with a headcount of 85,065, up 3.8% on the previous year. Of those, 83,807 were hired on indefinite contracts; 1,190 temporary, or for a specified period; 68 “special contract” status, and 1,887 were interns or trainees. The number of employees of companies providing services to Petrobras is 360,372. Of the total number of Petr leo Brasileiro S.A. employees, 52,210 are men and 9,668 women.

| EVOLUTION OF THE STAFF |        |        |        |        |        |
|------------------------|--------|--------|--------|--------|--------|
| YEAR                   | 2008   | 2009   | 2010   | 2011   | 2012   |
| Headcount              | 74,240 | 76,919 | 80,492 | 81,918 | 85,065 |

a) Employees - Petr leo Brasileiro S.A. in 2012: 61,878.

b) Employees - Petrobras Distribuidora in 2012: 4,490.

| EMPLOYEES BY REGION - BRAZIL |           |       |       |         |           |
|------------------------------|-----------|-------|-------|---------|-----------|
| REGION                       | Southeast | South | North | Midwest | Northeast |
| Men                          | 43,125    | 4,062 | 1,873 | 747     | 15,355    |
| Women                        | 8,943     | 620   | 261   | 131     | 2,308     |

| EMPLOYEES BY TYPE OF WORK |               |
|---------------------------|---------------|
| Shift <sup>(1)</sup>      | 19,572        |
| Administrative            | 56,609        |
| Standby                   | 5,450         |
| Maritime                  | 2,925         |
| Special field             | 462           |
| Special for air support   | 47            |
| <b>Total</b>              | <b>85,065</b> |

1) 6-, 8- and 12-hour shifts.

Petr leo Brasileiro S.A. employees account for 72.7% of the total and work in the 56 professions in our career structure for applicants with secondary or higher education. Pursuant to Article 37 of Brazil’s Federal Constitution, the company hires through public selection procedures, in which 5% of jobs not requiring full fitness are set aside for persons with disabilities, without discrimination by origin, race, sex, color, age or any other individual differentiating factor.

Petrobras has 7,640 employees in other countries. Although there is no overall guideline on hiring local staff, companies under our management will look at requirements for each position. Selection is based on interviews and resumes. Hiring members of local workforces is always prioritized in alignment

with government policy for each region, pursuant to local legislation. In some countries, this option may also be a legally prescribed obligation. In the Liquefied Natural Gas (LNG) business, when chartering a Floating Storage and Regasification Unit for operation in Brazil, at least one third of the crew must be Brazilian, as required by legislation in our country.

In Colombia, to ensure fair and transparent conditions for unskilled labor hiring, selection processes involve "Community Action Committees" that take into account socioeconomic and demographic particularities in areas of influence, as well as service providers' specific requirements for their tasks. For the operation of our Lot X in Peru, an agreement requires the proportion of local or regional workers employed on that block to be 70%. At present, it is 50% to 60%, but measures are being taken to reach the agreed target. In Tanzania, we offer local intern or trainee opportunities for university students. In Angola, preference for local hiring is reinforced by a legal requirement for foreign companies to employ Angolans in all occupations and professional positions.

| EMPLOYEES IN OTHER COUNTRIES              |       |       |              |
|---|-------|-------|--------------|
| Country                                   | Men   | Women | Total        |
| Angola                                    | 34    | 28    | 62           |
| Argentina                                 | 2,420 | 620   | 3,040        |
| Bolivia                                   | 447   | 128   | 575          |
| Chile                                     | 793   | 901   | 1,694        |
| Colombia                                  | 204   | 110   | 314          |
| Ecuador                                   | 9     | 3     | 12           |
| USA                                       | 435   | 169   | 604          |
| Japan                                     | 183   | 36    | 219          |
| Libya                                     | 8     | 1     | 9            |
| Mexico                                    | 31    | 12    | 43           |
| Namibia                                   | 3     | 3     | 6            |
| Nigeria                                   | 17    | 16    | 33           |
| Paraguay                                  | 198   | 74    | 272          |
| Portugal                                  | 9     | 10    | 19           |
| Peru                                      | 310   | 54    | 364          |
| Turkey                                    | 6     | 4     | 10           |
| Uruguay                                   | 232   | 87    | 319          |
| Venezuela                                 | 28    | 17    | 45           |
| <b>Total employees in other countries</b> |       |       | <b>7,640</b> |

## TURNOVER

The employee entry rate in the Petrobras System was 9.84%. The highest rate was in the below-25 age group (3.4%). By gender, we found the highest rate was among men (7.33%). We also found that the highest rate by operating location in Brazil was in the Southeast (5.1%) and in other countries Chile (92.7%).

The leaving rate in Brazil was 2.59% for men and 0.42% for women. In other countries, Chile has also the highest leaving rate (86.7%). Our high turnover rates in Chile were due to our operations there being concentrated in the retail sector (fuel distribution), which historically has had high turnover, and the heated local economy affecting employability and earnings.

## OCCUPATIONAL DEVELOPMENT AND PERFORMANCE ASSESSMENT

Our human resources training initiatives recognized challenges posed by our Business and Management Plan in terms of engaging our employees and setting individual targets to assess performance. In 2012 we invested R\$ 239.3 million in workforce development, which led to an average of 96.3 hours of training per employee. There were approximately 226,000 attendances on continuing education courses and training for new employees in Brazil and other countries.

In the course of 2012, Petrobras University recorded 73,000 attendances at courses and conferences, in addition to training courses for 3,533 new professionals. In addition, our employees get opportunities to take postgraduate courses and learn languages at external entities with full or partial coverage of tuition.

| TRAINING HOURS (average MHT) |        |
|------------------------------|--------|
| Total                        | 92.6   |
| Secondary education level    | 68.53  |
| Higher education level       | 116.02 |
| No bonus function            | 98.4   |
| With bonus function          | 25.99  |
| Men                          | 90.61  |
| Women                        | 99.8   |

We also developed competence-management programs and lifelong learning to support continuing employability. Internal courses on pre-retirement planning and assistance with transitions were offered as part of career-end management. Our retirement preparation courses discussed matters of interest to those about to retire, taking into account their historical data while recognizing the employees and their quality of life. In 2012, retirement preparation courses were attended by 319 employees for a total of 5,844 MHT.

## COMPENSATION AND BENEFITS

Personnel costs consist of fixed compensation for employees (salaries, benefits, and additional charges) plus expenses related to benefits. In 2012, these costs totaled R\$ 17.3 billion for Petróleo Brasileiro S.A. and showed an 18.8% increase if compared to the previous year, reflecting salary rises of up to 2.77% in real terms, a growing headcount and additional outlays for seniority and career progression payments. The Petrobras System's total cost of personnel was approximately R\$ 21.7 billion.

Employee compensation is commensurate with duties and responsibilities assumed. In 2012, the lowest salary in the Petrobras System was R\$ 877.76, in Transpetro.

| RATIO OF LOWEST SALARY PAID TO NATIONAL MINIMUM WAGE – BRAZIL |                 |               |
|---|-----------------|---------------|
|   | RATIO FOR WOMEN | RATIO FOR MEN |
| Petróleo Brasileiro S.A. – Petrobras                          | 2.16            | 2.16          |
| Petrobras Distribuidora                                       | 2.81            | 2.33          |
| Petrobras Biocombustível                                      | 2.92            | 2.81          |
| Liquigás  | 1.46            | 1.44          |
| Transpetro  | 1.71            | 1.41          |

National minimum wage in Brazil: R\$ 622.00.

| RATIO OF LOWEST SALARY TO NATIONAL MINIMUM WAGE - OTHER COUNTRIES |                 |                    |
|---|-----------------|--------------------|
| COUNTRY   | RATIO           | CURRENCY           |
| Angola  | No minimum wage | Kwanza             |
| Argentina   | 1.50            | Peso               |
| Bolivia   | 6.20            | Boliviano          |
| Chile   | 2.02            | Chilean peso       |
| Colombia  | 3.17            | Colombian peso     |
| USA   | 2.32            | Dollar             |
| Japan   | 1.27            | Yen                |
| Mexico  | 3.86            | Mexican peso       |
| Namibia   | No minimum wage | Namibian dollar    |
| Nigeria   | 11.84           | Nigerian naira     |
| Paraguay  | 1.52            | Guarani            |
| Peru  | 3.76            | Peruvian sol (PEN) |
| Portugal  | 2.58            | Euro               |
| Turkey  | 5.65            | Turkish lira       |
| Uruguay   | 2.57            | Uruguayan peso     |
| Venezuela   | 1.95            | Venezuelan bolivar |

Benefit programs are offered to full-time employees, since we have no temporary workers or part-timers. Our aims are to meet basic needs and ensure physical and social well-being while contributing to quality of life for employees and their families, as well as retirees.

## BENEFITS OFFERED IN BRAZIL

- ▶ Multidisciplinary healthcare: beneficiaries if eligible may access a range of health services - outpatient, hospital, psychological, speech therapy, pharmaceutical, nutritional, and dental. In 2012, our health plan (local acronym AMS) provided coverage for 276,000 beneficiaries through approximately 21,000 points of service. Our medical consultation, examination and hospital care expenses totaled R\$ 990 million.
- ▶ Special Assistance Program: we introduced and managed this benefit to provide specialized rehabilitation and education for people with disorders or disabilities meeting the program's eligibility criteria.
- ▶ Absence in Collective bargaining agreement – Retired employees: active employees legally retired when off work for more than 15 days due to occupational accident or disease, or to non-work related diseases or accidents, are assured 70% of normal pay.
- ▶ Maternity Leave: may be applied for before or after a baby's birth, with the right to stay home on full pay for 120 days. Women employees may also request a 60-day extension for a total of 180 days leave.
- ▶ Educational Benefits: our aim is to contribute to training and education for employees and their children. Benefits take the form of reimbursement of school expenses, daycare, caregiver assistance, preschool assistance, elementary and secondary school assistance, and supplementary educational items. In the course of 2012, we invested R\$ 203.5 million in educational benefits for 24,610 employees and assistance for 35,506 dependents.

We also have a series of arrangements with educational institutions all over Brazil that offer discounts to our employees and their dependents. In this context, a highlight is our university student program, offering incentives for our employees' children or stepchildren to go on to higher education. The program helps to encourage graduating in highly required careers by Petrobras, its partners and suppliers, given the high growth rate of the sector in Brazil. As of 2012, the program accepted all bachelor degrees careers demanded in our selection processes as stated in our career-structure job descriptions.

We believe all our employees should have the coverage of private pension plans. This is essential to maintain standards of living in retirement and complements the official social security (local acronym INSS) retirement benefit. Therefore, we have an agreement with Petros to facilitate pension benefits. By joining such a plan, employees and their families are covered in unexpected situations such as illness, disability, or death. The Petrobras System introduced the Petros pension plan in 1970 on a defined benefit basis. All participants and sponsors contribute to a single fund. Benefits paid are related to the compensation paid when active and are supplements to official social security (INSS) benefits. This plan was closed to new entrants, who in 2007 were offered Petros Plan 2, which works on a variable or mixed contribution basis.

In addition, we also provide benefits such as habitation subsidies, payday loan and sickness, accident and assistance for dependents of prisoners.



## SATISFACTION AND COMMITMENT

Surveys of organizational environment are our main diagnostic tool for assessing strengths and points for improvement based on perceptions of conditions and labor relations. The survey offers our employees an important means of expressing their feelings or perceptions in relation to their workplaces. Responses provide three indicators for our Strategic Map: employee satisfaction, level of commitment to company, and level of commitment to social responsibility.

| ORGANIZATIONAL ENVIRONMENT RESEARCH 2012 - PETROBRAS SYSTEM |      |      |      |      |      |
|---|------|------|------|------|------|
| INDICATOR   | 2008 | 2009 | 2010 | 2011 | 2012 |
| Satisfaction (%)  | 66   | 66   | 66   | 68   | 68   |
| Commitment to company (%)                                   | 73   | 72   | 70   | 71   | 70   |
| Commitment to social responsibility (%)                     | 76   | 77   | 75   | 76   | 74   |

In 2012, the survey reached 74% participation.

Data are collected through our intranet system and responses are tabulated, thus ensuring anonymity for respondents. The survey enables us to assess the current situation and plan measures for continuous improvement.

## FREEDOM OF ASSOCIATION

Our policy for continuous negotiation with trade unions is reflected in the performance of the negotiating commissions set up under the aegis of collective bargaining agreements, which address a range of issues. In 2012, there were no restrictions on freedom of association or collective bargaining recorded in the regions where our units are located in Brazil. This negotiation process has led to significant advances for the rights of employees and guaranteed employees' rights to take part in meetings of the trade unions in question.

Trade unions organize many different types of event or expression of opinion without any interference on our part. Employees' freedom of association is legally assured and we respect this right, which is also stated in our Code of Ethics. All our employees in Brazil are covered by collective bargaining agreements. In other countries, 36% of employees are covered by collective bargaining agreements, depending on local legislation.

When operational changes are made, such as new technologies being deployed to boost employee efficiency, quality and competitiveness at work, or to assure safety or health, they are preceded by negotiation with unions and local internal accident prevention committees (local acronym CIPAs) as per collective bargaining agreements. Changes are introduced gradually, whenever necessary, in order to prepare employees for new scenarios. In Brazil, there is no explicit minimum period of advance notice for this type of communication. In other countries, these notifications are provided in compliance with local requirements. At the corporate level, operational changes to be made are



reported at standing committee meetings held jointly with trade unions at two-month intervals to address issues such as hours worked per day, outsourcing, health plan, and follow-up from collective agreements. In addition, when necessary, informative presentations for unions are made in advance.

#### FORMAL COMMITTEES ON WHICH EMPLOYEES ARE REPRESENTED

- ▶ Collective bargaining agreement committee;
- ▶ Employment conditions committee;
- ▶ Health plan committee;
- ▶ Health and safety committees for Petrobras' employees, employees hired by service providers, and accident prevention committees;
- ▶ National Retirement Commission;
- ▶ Outsourcing Commission;
- ▶ Commission for Settlement of Lawsuits;
- ▶ National Benzene Committee;
- ▶ State-level Benzene Committees;
- ▶ Accident prevention committees (local acronym CIPAs) at all units;
- ▶ Ergonomics committees;
- ▶ Investigation of Health and Safety Anomalies.



## Health and safety at work



We identify, monitor, and control risks, adjusting safety procedures and initiatives for emergency prevention and control. Periodic updating of Health and Safety and Environment policy guidelines and goals aims to ensure ongoing compliance with our Strategic Plan and related legislation.

We developed programs for medical control of occupational health, environmental risk prevention and wellness, to ensure better health, safety, ergonomics, and hygiene conditions. Based on diagnostics from these programs, we can eliminate or control occupational hazards, introduce organizational processes for healthier working and lifestyles, and help employees avoid sedentary lifestyles and eat balanced diets. All Petrobras System employees are represented on formal health and safety bodies by region and operating unit.

## HEALTH AND SAFETY PROGRAMS

We develop education, training, health and safety programs such as those for prevention of occupational exposure, AIDS prevention and control, support for mothers-to-be and breastfeeding, and specialized assistance for employees and dependents affected by disabilities or disorders. We have other initiatives relate to social activities and quality of life, such as programs preparing for retirement, wellness for living and working, physical activity, blood donations, and healthy eating. We develop health campaigns such as anti-smoking, vaccination, cancer and HIV/ AIDS and talks or courses on diabetes, sedentary lifestyle, stress, diet and workplace ergonomics.

Activities we hold regularly include internal accident prevention weeks (local acronym Sipats), training groups for those working around benzene (local acronym GTBs), emergency drills (local, regional and national) and awareness initiatives such as traffic-accident prevention campaigns. In other countries, highlights include malaria prevention initiatives in Angola. We provide assistance for our employees and their dependents, and intervene if necessary in all cases of health risk, vaccinations, tests to detect disease pathogens, planning and making scheduled home visits for families, hospital and outpatient care, in order to identify improvements, prevent disease and ensure medical support.

Our nationwide collective bargaining agreement includes a chapter exclusively for health with detailed items such as: periodic examinations, health safety and environment commissions, internal accident prevention commissions, healthy eating and regular nutritional assessment programs, quality of life, disease prevention, occupational health, contingency program, prevention for occupational safety, firefighting, biological-environmental monitoring, and health policy, and psychological health and quality of life program.

## ACCIDENTS AND DISEASES

We have safety measures in place to enhance accident reporting and recording and to encourage corporate culture focused on preventing and eliminating risks or hazards. We emphasize the importance of each employee, including those directly executing each task, making prior assessments of risks involved in each activity as a condition for doing the job.

Starting in 2012, as one of our strategic safety indicators, we introduced Reportable Case Rate (local acronym TOR) to replace the previous Lost Time Injury Frequency Rate. TOR refers to the total number of employees involved in accidents (fatalities, accidents with or without time off work, and cases requiring first aid) multiplied by one million and divided by total man-hours worked with exposure to risk. TOR for our entire workforce was 6.8 in 2012.

| NUMBER OF FATALITIES |           |                                |           |
|----------------------|-----------|--------------------------------|-----------|
|                      | EMPLOYEES | EMPLOYEES OF SERVICE PROVIDERS | TOTAL     |
| 2008                 | 4         | 14                             | 18        |
| 2009                 | 1         | 6                              | 7         |
| 2010                 | 3         | 7                              | 10        |
| 2011                 | 3         | 13                             | 16        |
| <b>2012</b>          | <b>0</b>  | <b>13</b>                      | <b>13</b> |

Includes traffic accident fatalities within distribution area.

Despite all our precautionary measures, 13 fatalities were recorded among outsourcer service provider employees in 2012. Six of these fatalities took place while building and installing new facilities, which account for 35% of the man-hours worked with exposure to risk, and two involved hazardous load transportation. Other indicator monitored includes fatal accident rate per 100 million man-hours risk exposure. These indicators include data of our own employees and those working for service providers. Number of fatalities and fatal accident rate both fell in 2012. Absenteeism was 2.23%.

#### FATAL ACCIDENTS



The International Oil and Gas Producers Association reported an average of 1.88 in 2011.

| PERCENTAGE OF LOST TIME                |              |
|--|--------------|
| ABSENTEEISM DUE TO ILLNESS OR ACCIDENT |              |
| Men                                    | 0.06%        |
| Women                                  | 0.02%        |
| <b>Total</b>                           | <b>0.08%</b> |

Covers only Petróleo Brasileiro S.A. (Petrobras) and refers to absenteeism due to occupational accident or disease divided by planned hours.



| OCCUPATIONAL DISEASE INCIDENCE RATE |  |      |              |
|-------------------------------------|--|------|--------------|
| 2010                                |  | 0.36 | 20 new cases |
| 2011                                |  | 0.03 | 2 new cases  |
| 2012                                |  | 0.02 | 1 new case   |

Rate per thousand employees. Covers only Petróleo Brasileiro S.A. (Petrobras).

In 2012, we altered rules for handling Health, Safety, Environment, and Energy Efficiency anomalies to conform to the practices for recording and handling Process Safety Events recommended by the American Petroleum Institute (API) and the Center for Chemical Process Safety (CCPS). Eleven “loss of containment” events were recorded, nine of them related to spills/leaks, one of them followed by fire, and one involving personal injury (burn).



# Diversity and gender equity



We believe that respect for human and cultural diversity and non-discrimination are essential principles. We guarantee the right to difference and all workers, regardless of their characteristics, are assured full conditions to develop their talents and potential. This is one of our values and is stated in our Code of Ethics.

Representatives from Petrobras System areas and subsidiaries comprise the Diversity Subcommittee, associated with the Social Responsibility Committee, which discusses topics such as respect for diversity and combating discrimination, as well as proposals for initiatives to improve management in this sphere.

In 2012, with the Secretariat for Racial Equality Policies (local acronym Seppir) we signed a letter of intent on joint strategies for strengthening affirmative action, fostering racial equality and combating racism. Our commitment under this agreement will include having our sponsorship selection processes spell out criteria that recognize projects fostering racial equality, as well as art work produced by black artists and those from other ethnic groups. The commitment assumed by the Secretariat for Racial Equality Policies was to support us in developing content for social inclusion relating to the history and diversity of the cultures involved in the agreement.

## WORKFORCE DIVERSITY +

We offer equal employment opportunities for all our employees. We do not tolerate any kind of discrimination based on race, gender, sexual orientation, beliefs, or any type of disability. Our policies, practices, and procedures value diversity and respect diversity in culture, knowledge, and aptitudes.

**+**  
For more details of how complaints about discrimination are processed and the measures taken, see the “Transparency and Accountability” chapter.

| RACIAL DIVERSITY |                     |            |
|------------------|---------------------|------------|
| RACE / COLOR     | NUMBER OF EMPLOYEES | PERCENTAGE |
| White            | 31,009              | 50.1       |
| Pardos (brown)   | 13,052              | 21.1       |
| Black            | 2,840               | 4.6        |
| Yellow           | 782                 | 1.3        |
| Indigenous       | 218                 | 0.4        |
| Not stated       | 13,977              | 22.6       |
| <b>Total</b>     | <b>61,878</b>       | <b>100</b> |

Data self-reported by each employee.

Race/ color: data refer to Petróleo Brasileiro S.A. (Petrobras).

| BREAKDOWN OF EMPLOYEES BY AGE-GROUP AND GENDER |               |               |               |
|--|---------------|---------------|---------------|
|  | Men           | Women         | Total         |
| Under 30                                       | 12,345        | 3,771         | 16,116        |
| 31 - 50  | 36,839        | 7,768         | 44,607        |
| Over 51  | 21,345        | 2,997         | 24,342        |
| <b>Total</b>                                   | <b>70,529</b> | <b>14,536</b> | <b>85,065</b> |

| PROPORTION OF BASIC SALARY <sup>(1)</sup> BETWEEN WOMEN AND MEN BY JOB CATEGORY |   |   |
|---|---|---|
| TYPE OF EMPLOYEE  | PROPORTION OF EMPLOYEES EDUCATED TO SECONDARY LEVEL | PROPORTION OF EMPLOYEES FROM HIGHER EDUCATION |
| Non-bonus earning job   | 1.05  | 0.94  |
| Bonus-earning job   | 0.93  | 0.92  |
| <b>Grand total</b>  | <b>0.98</b>   | <b>0.93</b>                                   |

1) Fixed minimum paid for tasks, not including additional payments.

| PROPORTION BETWEEN WOMEN'S AND MEN'S PAY BY EMPLOYEE CATEGORY |   |   |
|---|---|---|
| TYPE OF EMPLOYEE  | PROPORTION OF EMPLOYEES EDUCATED TO SECONDARY LEVEL | PROPORTION OF EMPLOYEES FROM HIGHER EDUCATION |
| Non-bonus earning job   | 0.94  | 1.02  |
| Bonus-earning job   | 0.90  | 0.92  |
| <b>Grand total</b>  | <b>0.91</b>   | <b>0.95</b>                                   |

| BOARD OF DIRECTORS AND FISCAL COUNCIL |                   |
|---------------------------------------|-------------------|
| AGE GROUP                             | NUMBER OF MEMBERS |
| Under 50                              | 4                 |
| Over 51                               | 10                |
| GENDER                                | NUMBER OF MEMBERS |
| Male                                  | 10                |
| Female                                | 4                 |
| RACE / COLOR                          | NUMBER OF MEMBERS |
| White                                 | 5                 |
| Not stated                            | 9                 |
| <b>Total</b>                          | <b>14</b>         |

Not including substitute members of the Fiscal Council.

Maternity leave is six months and leave for mothers who adopt, or obtain legal custody for adoption purposes, may vary from 30 to 120 days as per specific legislation. During this period, a woman employee is entitled to full pay but must not be engaged in any other gainful activity, and the child must not be kept at a daycare or similar institution. We provide rooms with support for breastfeeding, equipped with infrastructure required to collect and store breast milk during working hours.

In the case of paternity leave, a man employee is entitled to five consecutive days as of the baby's birth date or of legal custody being awarded for adoption of a minor aged under nine. In 2012, at Petróleo Brasileiro S.A., 326 women took maternity leave and 866 men took paternity leave.

## AGREEMENTS AND INITIATIVES



During the United Nations Conference on Sustainable Development, also known as Rio +20, Petrobras president Maria das Graças Silva Foster took part in the Women Leaders Forum held by the United Nations (UN). Also we were official partner to the Rio +20 National Organizing Committee. For the fourth time took part in the Gender and Racial Equity program of the federal government's Women's Policies Secretariat (SPM), and committed to an action plan including several initiatives. In 2010, we adhered to the UN document on Women's Empowerment listing seven principles as practical guidance for companies on gender equality in the workplace, market and community.

Together with the Brazilian Geological Service (local acronym CPRM), we held a national conference on Women, Science and Technology in Rio de Janeiro. The event attended by representatives from government, industry, academia and civil-society organizations discussed women's inclusion and participation in science, technology, and innovation, in educational and research institutions and the labor market, as part of the Women's Policies Secretariat (local acronym SPM) Gender and Racial Equity Action Plan.

In 2012, Petrobras and Petrobras Distribuidora sponsored the Caravana Siga Bem. The initiative traveled to 41 cities in 18 of Brazil's states for the primary purpose of combating violence against women and sexual exploitation of children and adolescents, in addition to citizenship and road safety campaigns. The project traveled over 16,000 kilometers working together with local institutions to protect children and women, distributing educational materials, and screening related videos.

Road safety activities were held in partnership with the Federal Highway Police. Throughout the period, features on children's and women's rights were screened on a TV show for truck drivers and broadcast as commercials on daily radio shows for truck drivers syndicated across 170 stations throughout Brazil. The initiative is part of a set of integrated actions with partners including the Human Rights and the Women's Policies Secretariat of the Presidency, and the Federal Highway Police.

# Human rights in the business chain



We uphold human rights in our activities and throughout our value chain in accordance with the Universal Declaration of Human Rights and International Labor Organization (ILO) conventions. Our social-responsibility policy particularly repudiates any wrongful conduct or disrespect of human rights, such as child labor, forced or compulsory labor, or other practices of this type. In addition, our Code of Ethics states that procedures for selecting and hiring suppliers and service providers must be based on strictly legal and technical criteria such as quality, cost, and punctuality, while requiring ethical profile for their social responsibility management and environmental practices, including suppliers' production chains.

However, we recognize that there is a risk of cases of this kind arising in rural areas growing crops used for biofuels. Therefore, we require suppliers and contractors to comply with contractual provisions stipulating respect for human rights and banning degrading conditions, which once detected may be penalized by fines or cancelling contracts. These clauses will also integrate individual contracts with farmers, following the procedure already adopted with cooperatives. As a signatory of the National Pact for Eradication of Slave Labor in Brazil, we do not purchase products from companies fined for use of slave labor.

No cases involving these issues were detected in 2012. Checking and identification of such practices is part of our routine assessment of services provided. If issues are detected, contracts are cancelled or sanctions applied to the companies involved. We are committed to not do business with individuals or entities on the list of employers fined for exploiting workers in conditions analogous to slavery, which is periodically publicized by Brazil's Ministry of Labor. Additionally, all of our more material contracts in terms of investment, scale or strategic importance include human rights conditions.

In other countries, although there is no specific guidance on human rights assessments, we follow current legislation, which includes respect for human rights, and we adopt certain measures such as managing and monitoring suppliers, as well as socioeconomic studies. In Argentina, for example, we require proof of legal, economic and financial eligibility, tax compliance, and business relation. Organizations that provide critical services in the value chain are included in the business area's management controls for checks on adhesion to labor agreements and human rights practices. In this respect, companies registered with us are checked for compliance with contractual requirements and reliable delivery of goods or services. In Peru, we started a contractual review to incorporate human rights conditions that will be implemented in 2013.



In relation to operations assessed for human rights, our activities are supported by contracts containing requirements for compliance with local and international human rights standards and laws. In 2012, we highlighted 15 projects rolled out by Engineering, which held meetings to chart social risks in order to devise plans for social responsibility management. These assessments involve various human-rights related criteria. Social risks were assessed and an action plan compiled to respond to those assessed as the most important. All risks are mapped by project and periodically monitored and reviewed.

Among our own safety staff, 1,121 hold the position of internal safety inspector. In 2012, 9.2% attended training courses with content including human-rights aspects relevant to operations. Employees of service providers must follow procedures, operating standards and the Code of Ethics including those involving aspects of human rights, respect for individual guarantees and diversity. However, federal level regulatory bodies (such as the audit court, TCU) do not allow us to provide training for persons employed by our subcontractors.

# ENVIRONMENT







## Strategy and governance



From planning new projects and products all the way through marketing and sales stage, our activities are based on the commitment to sustainable development as an across-the-board value that is part of our corporate strategy. Other documents, such as the Petrobras System Ethics Code emphasize respect for all life forms, health and safety, and the environment.

We are committed to lowering the impacts of our business on the environment and society. Therefore, we are focusing on enhancing quality of the fuel we supply, upgrading productive processes for energy efficiency, reducing spills and greenhouse gas emissions, rigorous stewardship of natural resources, waste generation and disposal, and ecosystem conservation and recovery.

We also invest to diversify energy sources by boosting our share of natural gas and renewable fuel markets. We help to mitigate the effects of global climate change through research and initiatives such as those relating to CO<sub>2</sub> capture and storage.

The Executive Management of HSE is the corporate area charged with guiding, monitoring and assessing our efforts and results in the field of Health and Safety, the Environment, and Energy Efficiency. In addition, all managers are responsible for performance in health and safety and environmental of the areas and units they manage, following internal policy, guidelines, and standards. These documents address all aspects of our activities, such as legal compliance, procurement of goods and services, product management and community relations.

Unit management systems are rated for compliance with corporate guidelines through our health and safety and environmental assessment process. At the end of 2012, all oil refined in Brazil had been processed by ISO 14001- and OHSAS 18001-certified units.

| <b>TOTAL ENVIRONMENTAL PROTECTION OUTLAYS AND EXPENSES (R\$ million)</b>  |                |                |              |
|---|----------------|----------------|--------------|
| <b>NATURE OF EXPENSE</b>  | <b>2012</b>    | <b>2011</b>    | <b>2010</b>  |
| Environmental costs related to production / operation                     | 2,238.7        | 1,976.9        | 1,750.6      |
| Pollution control equipment and systems                                   | 154.1          | 199.0          | 172.3        |
| Projects to recover degraded areas  | 434.1          | 373.7          | 242.3        |
| Investments in external programs and/or projects (including sponsorships) | 101.2          | 171.6          | 257.7        |
| <b>Total</b>  | <b>2,928.2</b> | <b>2,721.2</b> | <b>2,423</b> |

Includes operating units in Brazil and other countries.

Our suppliers are required to act responsibly in environmental terms. This obligation is reflected in requirements for entering and remaining in our corporate supplier register, in contractual conditions referred to the subject, also in our structured system for handling non-conformities and in the last instance in use of sanctions to block delivery of goods or services.

## **CLIMATE CHANGE**

Several studies have shown that higher greenhouse gas emissions associated with the energy and transport sectors, as one consequence of rising consumption of energy, especially from fossil fuels, are among the causes of global warming. Recognizing the evidence provided by climate science, we are committed to understanding the effects of our activity on climatic conditions and taking measures to mitigate them.

Our strategy focuses on energy efficiency initiatives; operational improvements; research and development on new technologies; feasibility and application of renewable energy sources, particularly biofuels; and encouraging efficient use of our products. The initiatives introduced will slow the growth curve of emissions from operations and products, thus helping to ensure that our business grows as planned on a sustainable basis.

We take part in climate change forums and initiatives such as the working group for climate change of the Global Oil and Gas Industry Association for Environmental Affairs and Social (IPIECA), the Carbon Sequestration Leadership Forum (CSLF), the World Business Council for Sustainable Development (WBCSD), the Regional Association of the Oil, Gas and Biofuels Industry in Latin America and the Caribbean (Arpel) and the Brazilian GHG Protocol program, of which we are founding members, and we regularly follow the Conference of Parties on Climate Change (COP).

## KEY MITIGATING ACTIONS AND RESULTS

- ▶ Reduction of GHG emission intensity, in particular a 60.8% decrease from gas flaring operations in exploration and production in 2012;
- ▶ Continuity of the Natural Gas Optimization Program (Poag 2015), which enabled 91.2% use of associated gas in exploration and production in 2012 improving on the previous year's number;
- ▶ Closing the cycle of the Luiz Carlos Prestes thermoelectric plant (UTE) in 2012, with UTE Sepe Tiaraju planned for 2013, making these thermoelectric plants more efficient and reducing volumes of emissions;
- ▶ Investments in R&D to mitigate climate change through two technology programs and a thematic network involving 15 Brazilian institutions;
- ▶ Investments of US\$ 2.9 billion in biofuels from 2013 through 2017 by Petrobras Biocombustível;
- ▶ Encouraging the rational use of fuel through the initiatives of the National Program for the Rational Use of Oil and Natural Gas (Conpet);
- ▶ Sponsorship of environmental projects for water conservation, carbon sequestration and mitigation of emissions under the Petrobras Environmental Program (PPA);
- ▶ Participation in the international Carbon Capture Project (CCP), a partnership of energy companies with academia and government to identify and develop technologies to capture and store CO<sub>2</sub> in order to ensure its application on an industrial scale - there is potential for a reduction of up to 30% of CO<sub>2</sub> emissions from a refinery;
- ▶ Advanced control unit fitted to the ammonia unit at our Bahia fertilizer plant, which reduced its natural gas consumption by 4.6% and saved annual emissions of 17 tons of CO<sub>2</sub>.

## RISKS AND OPPORTUNITIES

Climate change may aggravate and intensify global climate phenomena such as prolonged droughts, floods, and heavy rain. We are preparing for the possibility of such events, which may affect:

- ▶ Our global operations in deep waters, which are vulnerable to rising sea level and a possible increase in the number and intensity of hurricanes;
- ▶ Transport by highway, ocean, waterway and pipeline systems carrying large volumes of oil and oil derivative products, natural gas and biofuels;
- ▶ Availability of water for our operations;
- ▶ Production of biofuels, especially during planting and growing periods;
- ▶ Insurance premiums for facilities and the volume of investments to ensure their safety and integrity.

In addition, tighter regulatory frameworks in Brazil and internationally in relation to use of fossil fuels may involve higher costs and heavier investment, thus undermining competitiveness due to new technical and commercial requirements in the supply chain for our products. To reduce the risk of impact on our business, we have structured a portfolio of R&D projects for less carbon intensive technologies and products.



Highlights in the context of these technology programs are the Climate Change Mitigation Technology Program (Proclima), which develops solutions to mitigate GHG emissions from our processes and products; the Pre-Salt Development CO<sub>2</sub> Management Technology Program (PRO-CO<sub>2</sub>) and the Biofuels Technology Program developing first- and second-generation biofuel technology.

Along with the above, we are growing our business in the biofuel area and we have made investments in this and other renewable energy sources. The Petrobras Biocombustíveis subsidiary producing and managing biodiesel and ethanol projects is poised to competitively explore opportunities in this scenario. These initiatives and their results may become increasingly attractive to investors and new business partners.



# Energy efficiency



Our energy-management related initiatives are focused mainly on energy optimization and integration, advanced process control, modernizing facilities, adapting equipment, and standardizing operating projects and systems. In addition, we are investing in converting thermoelectric plants to combined cycle processes and using natural gas associated with oil production.

We saved 4,000 barrels of oil equivalent per day (boe), or 8.6 million gigajoules (GJ) of energy and invested R\$ 58 million in energy efficiency projects.

An important example of redesigning processes was closing the cycle at UTE Luís Carlos Prestes (thermoelectric plant) in 2012. We obtained a 15% efficiency gain by boosting electricity generating capacity from 252 MW to 368 MW, enough electricity to meet the demand of a city with 1.2 million inhabitants.

In 2012, we signed an agreement with Japan Bank for International Cooperation (JBIC) to obtain up to US\$ 1 billion in funding for energy efficiency projects, the largest contribution ever made by JBIC in the energy efficiency category and our first large-scale funding facility for this type of project. The projects selected to receive the investment were the electricity and steam cogeneration unit the Rio de Janeiro petrochemical complex (Comperj) and the flaring reduction program for the Campos basin.

We also introduced energy efficiency and automation projects for our administrative facilities, such as a building monitoring system to track electricity used in the main buildings we occupied. These projects and our optimization of energy procurement, with an option to purchase energy from renewable sources, enabled a saving of approximately 1060 GJ and over R\$ 11.9 million in 2012.

Through the program for reducing consumption and raising energy efficiency for Petrobras Distribuidora, we encouraged the use of solar energy for water heating and metering and lighting systems, and we provided incentives for support vehicles with internal combustion engines being replaced by electric vehicles, among other initiatives.

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PROJECTS.**

## ENERGY CONSUMED

Our total energy consumption in 2012 was 936,199 terajoules (TJ) (434,200 bpd), which was 37.1% up on 2011. A factor that contributed significantly to this increase was that more electricity from thermoelectric power plants was dispatched at the request of the National System Operator in 2012.

| ENERGY CONSUMED BY PETROBRAS (in TJ)    |                |                |                |
|---|----------------|----------------|----------------|
| PERIOD                                  | 2012           | 2011           | 2010           |
| <b>DIRECT ENERGY</b>                    |                |                |                |
| Diesel oil                              | 75,755         | 38,041         | 37,919         |
| Fuel oil                                | 77,476         | 64,733         | 65,844         |
| Natural gas                             | 548,820        | 359,112        | 423,183        |
| Refinery gas                            | 120,551        | 140,548        | 74,599         |
| Residual gas                            | 2,452          | 5,864          | 5,920          |
| Liquefied petroleum gas (LPG)           | 26             | 28             | 937            |
| Coke                                    | 67,432         | 67,567         | 67,962         |
| Other                                   | 7,184          | 29             | 431            |
| <b>TOTAL DIRECT ENERGY</b>              | <b>899,496</b> | <b>675,921</b> | <b>676,795</b> |
| <b>INDIRECT ENERGY</b>                  |                |                |                |
| Imported steam                          | 20,505         | 412            | 13,953         |
| Imported electricity                    | 16,198         | 6,493          | 25,925         |
| <b>TOTAL INDIRECT ENERGY</b>            | <b>36,703</b>  | <b>6,905</b>   | <b>39,878</b>  |
| <b>TOTAL (DIRECT + INDIRECT ENERGY)</b> | <b>936,199</b> | <b>682,827</b> | <b>716,673</b> |

a) Transfers of electricity and steam between Petrobras System units are not included in the calculation.

b) Electricity and steam imported from third parties were converted based on their energy content.

c) The volume of direct energy consumed from renewable sources is not significant.

d) Almost all electricity imported by Petrobras is sourced from the National Interconnected System (SIN). Brazil's National Energy Balance (BEN) 2012 - for base year 2011 - reported that 89% of all electricity supplied by the grid (SIN) came from renewable and 11% from non-renewable sources. At the date of this report, the BEN 2013 report had yet to be published.

e) The total for imported electricity includes 489.2 TJ purchased from small hydroelectric plants for consumption at certain administrative buildings.

## CONSCIOUS CONSUMPTION

We are responsible for the Executive Secretariat of the Ministry of Mines and Energy's Program for Rational Use of Oil and Natural Gas (Conpet).

In the transportation sector, the program develops partnerships to test particulate materials in buses and trucks, and advises drivers on efficient use of vehicles. In 2012, around 93,000 tests were conducted.

In the educational field in 2012, 44 sustainability and energy efficiency education workshops were held with the attendance of over 1,600 teachers from 943 schools in seven states.

Conpet and the National Institute of Metrology, Quality and Technology (INMETRO) developed the Brazilian Labeling Program to encourage production and use of more efficient equipment and vehicles. The National Energy Conservation Label reports and compares fuel consumption of automobiles and gas appliances, while the Conpet Energy Efficiency seal highlights the best performers. On the Conpet website, consumers may use our interactive systems to choose for more economical products with lower CO<sub>2</sub> emissions.

# Managing emissions



Showing our commitment to the environment and in order to contribute to sustainability for our business, we invested in maximizing energy efficiency and reducing the intensity of greenhouse gas emissions (GHG).

Our annual inventory of emissions is voluntarily disclosed in our own publications and through participation in initiatives such as the Brazilian GHG Protocol and Carbon Disclosure Project. In 2012, we collected data from a range of 15,000 sources. Since 2002, this information has been compiled by the Emissions Management System (Sigea<sup>®</sup>), and its results are regularly submitted for independent verification, as required by ISO 14064.

We set up and regularly tracked a series of internal indicators of GHG emissions. These indicators and their associated targets are currently being revised in order to enhance emission management.

## VOLUME EMISSIONS

In 2012, our operations led to emissions of 67.4 million tons of CO<sub>2</sub> equivalent, which was 20% more than the previous year's total. This result was mainly due to more electricity from thermoelectric plants being dispatched in 2012.

| GREENHOUSE GAS EMISSION – 2010 - 2012 (millions of tons of CO <sub>2</sub> equivalent) |             |             |             |
|--|-------------|-------------|-------------|
|  | 2012        | 2011        | 2010        |
| Direct emissions   | 66.0        | 54.9        | 60.0        |
| Indirect emissions   | 1.4         | 1.3         | 1.1         |
| <b>Total emissions</b>   | <b>67.4</b> | <b>56.2</b> | <b>61.1</b> |

a) Results relating to operations in E&P, refining, fertilizers, petrochemicals, electricity generation, land (pipeline and road) and ocean transportation, as well as distribution activities in Brazil, Argentina, Bolivia, Colombia, Mexico, Peru, Paraguay, Uruguay and the United States.

b) Indirect emissions refer to the purchase of electricity and steam supplied by third parties in the countries mentioned.

c) Our emissions inventory is prepared according to the guidelines of the GHG Protocol - Corporate Standard (WRI/WBCSD). Its scope includes assets we operate and those in which we hold 50% or more financial control. Our inventory uses a bottom-up methodology, so the total is the sum of emissions from each source. Algorithms used to calculate GHG emissions were based on publicly accessible international benchmarks such as the API Compendium and "AP-42" (US EPA).

d) In terms of GHGs, the inventory includes emissions of CO<sub>2</sub> (carbon dioxide), CH<sub>4</sub> (methane) and N<sub>2</sub>O (nitrous oxide). Results are expressed in millions of metric tons of CO<sub>2</sub> equivalent, calculated using the method in the second report of the Intergovernmental Panel on Climate Change (IPCC).

e) We submit our inventories to periodic verification by a third party as required by ISO 14064. The 2008-2011 period is in its final stage of verification, and the year 2012 will be verified during 2013.

f) Other indirect greenhouse gas emissions had not been consolidated by the closing date for this report.

## CARBON DIOXIDE – CO<sub>2</sub> EMISSIONS (millions of tons)



## METHANE – CH<sub>4</sub> EMISSIONS (thousands of tons)



Total emissions: direct + indirect.

## NITROUS OXIDE – N<sub>2</sub>O EMISSIONS (tons)



Total emissions: direct + indirect.

| OTHER SIGNIFICANT ATMOSPHERIC EMISSIONS (tons) |         |         |         |
|--|---------|---------|---------|
| EMISSIONS                                      | 2012    | 2011    | 2010    |
| Nitrogen oxides (NO <sub>x</sub> )             | 251,485 | 222,212 | 227,752 |
| Sulfur oxides (SO <sub>x</sub> )               | 116,337 | 120,636 | 133,733 |
| Particulate matter                             | 18,190  | 17,483  | 17,505  |
| Volatile organic compounds (VOCs)              | 262,614 | 253,320 | 258,046 |
| Smokestack and fugitive emissions              | 100,981 | 68,338  | 75,500  |
| Carbon monoxide (CO)                           | 189,443 | 157,394 | 140,559 |

a) Emissions of HCNM (non-methane hydrocarbons) contained in the inventory are included in VOCs.

b) Smokestack and fugitive emissions included only fugitive reported as total hydrocarbons.

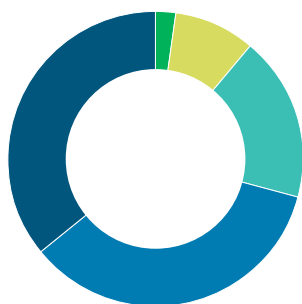
c) Methodology used to calculate emissions reported is the same as described in the "Greenhouse gas emissions" table.

d) In Petrobras System, we don't consolidate the total emissions of substances that deplete the ozone layer. In accordance with Brazilian law and the commitments made by the country through the Montreal Protocol, our areas and subsidiaries must register with IBAMA activities that use these substances, when applicable.

| BREAKDOWN OF GHG EMISSIONS BY ACTIVITY (millions of tons of CO <sub>2</sub> equivalent) |           |           |           |
|---|-----------|-----------|-----------|
| ACTIVITY  | 2012      | 2011      | 2010      |
| Production  | 24        | 22        | 24        |
| Refining  | 24        | 21        | 21        |
| Generating electricity and steam  | 12        | 6         | 9         |
| Fertilizers   | 1         | 1         | 1         |
| Other   | 6         | 6         | 6         |
| <b>Total</b>  | <b>67</b> | <b>56</b> | <b>61</b> |



## BREAKDOWN OF GHG EMISSIONS BY ACTIVITY (%)



|                                  |       |
|----------------------------------|-------|
| Production                       | 35.5% |
| Refining                         | 35.5% |
| Generating electricity and steam | 17.6% |
| Fertilizers                      | 1.9%  |
| Other                            | 9.5%  |

In relation to persistent organic pollutants (POP), Brazil's first inventory of dioxins and furans estimated that 8.3 g TEQ/ year of these pollutants were released into the atmosphere by light oil/ natural gas thermoelectric plants, flaring gas at refineries, and transport and oil shale pyrolysis (activities within our scope). This amount includes emissions from other companies and accounts for 0.7% of the estimated total POP emissions in Brazil. Due to the low volume, we do not have a systematic inventory of emissions for these pollutants.

| BREAKDOWN OF EMISSIONS BY ACTIVITY (tons) |                   |                   |                  |                   |                   |
|---|-------------------|-------------------|------------------|-------------------|-------------------|
| ACTIVITY                                  | NOx               | SOx               | MP               | VOC               | CO                |
| Exploration and production                | 94,825.80         | 13,276.21         | 9,143.30         | 118,229.12        | 70,152.45         |
| Refining and petrochemicals               | 38,154.49         | 72,473.61         | 4,398.48         | 49,008.36         | 82,178.93         |
| Generating electricity and steam          | 24,633.45         | 717.77            | 650.85           | 1,436.29          | 20,998.37         |
| Fertilizers                               | 2,290.48          | 17.63             | 486.10           | 1,808.80          | 2,073.05          |
| Transport and distribution                | 91,392.15         | 29,789.98         | 3,506.38         | 92,102.22         | 13,668.90         |
| Biofuels                                  | 34.12             | 42.92             | 3.11             | 16.94             | 8.34              |
| Other                                     | 154.76            | 18.69             | 1.46             | 12.57             | 363.37            |
| <b>Total</b>                              | <b>251,485.26</b> | <b>116,336.80</b> | <b>18,189.68</b> | <b>262,614.30</b> | <b>189,443.41</b> |

Other significant indirect emissions arising from use of our products totaled 432.6 million tons of CO<sub>2</sub> equivalent. This estimate assumes that products sold in 2012 were at some point in their lifecycles part of a combustion process that released their carbon content into the atmosphere. The baseline data used were consolidated sales of products for 2012 and GHG Protocol methodology, taking a conservative approach by classifying exports as "residual oil".

| HYDROCARBON VOLUME BURNED    |                                  |
|------------------------------|----------------------------------|
| Destination                  | Volume (million m <sup>3</sup> ) |
| Flared                       | 2,487.5                          |
| Dissipated in the atmosphere | 69.7                             |

a) Based on records of volume of natural gas flared and gas released directly into the atmosphere.

b) This volume refers to our activities in Brazil and other countries.



## Biodiversity



Guidelines stated in internal rules and standards, such as our HSE policy, orient and standardize our biodiversity related practices and commitments. These documents advise on assessment of related aspects and cover all stages of a project, from planning onwards. The technical skills of our workforce complement regulatory efforts. Petrobras University offers courses on biodiversity risk management and impacts, wildlife management at operational units and environmental assessment and monitoring, among other courses.

We are constantly enhancing our methods for managing biodiversity data. Arising from our association with the United Nations Environment Program's World Conservation Monitoring Centre (UNEP-WCMC) and the Proteus project, the GeoPortal SMES corporate geographic information system (GIS) now offers worldwide conservation unit data for integration with GIS data from Petrobras System areas and subsidiaries.

A highlight among our biodiversity related initiatives is the work of mapping sensitive and vulnerable protected areas to assess impacts on biodiversity and draw up diagnoses and recovery plans for degraded areas. Our biodiversity strategy also includes initiatives and targets to fully chart areas affected by our operations in terms of the presence of ecologically relevant areas, measures to prevent and minimize risks and in the last instance mitigation or compensation for any damage.

We also follow international trends in biodiversity management and take part in forums such as the ecosystems focus group of the World Business Council for Sustainable Development (WBCSD); the Biodiversity and Biotechnology technical chamber of the Brazilian Business Council for Sustainable Development (CEBDS); the Biodiversity Working Group of the International Petroleum Industry Environmental Conservation Association (IPIECA); the Biodiversity Network of Brazil's National Confederation of Industries (CNI); and LIFE Institute's Technical Committee.

## MANAGEMENT OF RISKS AND IMPACTS

Our standards for management of biodiversity risk and impacts provide guidance for the conduct of this process in our activities, including the execution of detailed action plans that take into account legal requirements and those related to obtaining environmental permits for projects, as well as the interests of communities and society in general, and the possibility of developing initiatives that contribute to government strategies for the conservation of biodiversity.

Involving stakeholders in biodiversity management is one of the prerogatives our standards pose in order to ensure transparency and support for decision-making and to facilitate the building of partnerships. The participation varies according to the different contexts. Some examples are direct contributions to conduct studies at universities or research centers, or environmental protection and recovery activities carried out by civil society organizations.

Biodiversity risks are identified when we apply for environmental licensing processes for new projects and are required to devise environmental programs. Additionally, more specific research or surveys may be conducted to support units developing biodiversity action plans. Biodiversity risks were identified at refining units in Brazil from 2007 through 2008, which have now all submitted biodiversity action plans containing measures to characterize and monitor biodiversity, conserve fauna and flora, and recover vegetation.

We also invest to develop better analytical tools and improve our processes for assessing impacts, thus preventing damaging effects for biodiversity on a continuing basis. In this respect, environmental impact assessment templates used by our Gas & Power operational units are being revised in order to develop specific biodiversity action plans and minimize the extent to which our activities affect the environment. In our coastal and oceanic exploration and production activities, environmental studies drafted since 2012 have made quantitative environmental risk assessments based on rigorous risk tolerance criteria.

**ENVIRONMENTAL  
STUDIES DRAFTED  
SINCE 2012 HAVE  
MADE QUANTITATIVE  
ENVIRONMENTAL  
RISK ASSESSMENTS  
BASED ON RIGOROUS  
RISK TOLERANCE  
CRITERIA.**

For the Petrobras Biocombustível subsidiary, potential risks associated with agricultural activities include soil degradation and possible contamination from agrochemicals. The nine sustainability principles that guide all company activities include prioritizing the use of degraded areas, respecting ecological zoning, and conserving biodiversity, water and other natural resources. In the ethanol segment, when acquiring new assets, Petrobras establishes strict selection criteria, including a requirement for integrated production methods and fully mechanized harvesting to avoid burning cane, thus reducing CO<sub>2</sub> emission and soot pollution.

For our exploration and production activities, the main impacts relate to use of land and the seabed are emissions of atmospheric pollution, discharge of industrial and sewage effluents in tracts of water and disposal of solid waste. Our key mitigation initiatives in 2012 included drilling horizontal wells; reusing of produced water; building bases for drilling multiple wells; and upgrading fluid metering infrastructure. In our seismic activities, we gradually increase the intensity of sound pulses produced by air cannon at the start or resumption of shots in order to minimize impacts on certain marine animals, especially cetaceans. In sensitive areas, our offshore drilling uses Riser Mud Recovery technology to avoid impacts associated with disposal of mud and cuttings at sea in the early stages of operations.

## **SENSITIVE AND PROTECTED AREAS**

Identifying and mapping sensitive and vulnerable protected areas in localities affected by our activities is an essential stage of the biodiversity management process. In 2012, we reviewed criteria and parameters for identifying these areas, as well as procedures for mapping them.

Based on this mapping, we will be enhancing knowledge of endangered species in areas affected by our operations. Most of this information is obtained through diagnostic studies and environmental characterization. By the end of 2012, studies have been concluded at the Shale Industrialization Unit (SIX) in Paraná, and at three refineries: Isaac Sabbá (Reman) in Amazonas, Landulpho Alves (Rlam) in Bahia, and Gabriel Passos (Regap) in Minas Gerais. Projects for this purpose are being hired or are now being executed at our Lubricants and Oil Derivatives Plant in the Northeast (Lubnor) and seven refineries.

**PROTECTED HIGH BIODIVERSITY AREAS IN UNITS OR THEIR SURROUNDINGS - DOWNSTREAM AREA IN BRAZIL**

| Type of operation                  | Number of units | Total area occupied (hectares) | Presence of legally protected or high biodiversity area within (or partially within) unit |
|------------------------------------|-----------------|--------------------------------|---|
| Petroleum refining                 | 15              | 13,037.03                      | 2,193.52  |
| Mining and production of shale oil | 1               | 1,907                          | 15.6  |
| <b>Total</b>                       | <b>16</b>       | <b>14,944.03</b>               | <b>2,209.12</b>   |

a) Consolidated refining units: Lubnor, Recap, Reduc, Regap, Refap, Reman, Repar, Replan, Revap, RLAM, RPBC, RPCC, RNEST and Premium I and II (units being set up). Our shale-oil mining and production unit is SIX.

b) Data for the Comperj unit (in progress) are not available.

c) Some legally protected areas or high biodiversity areas: Ceará River Estuary - permanent protection area; Lagoa da Maraponga - ecological park; Watershed Protection Area (local acronym APM); Baía de Guanabara - area of Ecological Interest (Arie); Serra dos Órgãos - national park; Tinguá - biological reserve; Sauim Castanheira - ecological reserve; Rio Paraíba do Sul basin (protected area) and Serra do Mar (state park), and others.

d) The occupied and preserved areas were measured through mappings of soil study and may vary depending on the methodology used.

A significant portion of our activities are in high biodiversity regions in terrestrial and aquatic ecosystems located in major biomes such as the Amazon region, Atlantic Forest vegetation, *cerrado*, or the Patagonian mountains. For new projects, identifying these areas to survey endangered species is part of the environmental licensing process and subsequently of biodiversity management for operating units.

We invest in recovering or protecting habitats in all biomes in Brazil and other countries in which we operate. The Petrobras Environmental program has obtained significant results and sponsored around a hundred projects in 2012. During the year, some 30 projects for conservation of forests and natural areas, productive reconversion of areas, and recovery of degraded areas, involved more than 620,900 hectares of benefited areas in different types of biomes including the Amazon region, *caatinga*, pampa, *cerrado* and Atlantic forest.

In the state of Paraíba, the Petrobras Environmental program is supporting the Mamanguape River conservation and preservation project for the river’s head-water area. The project’s focus is rational management of water resources and quality of life for riverside communities. There is also an environmental education campaign working closely with municipal schoolteachers and sanitary and health surveillance agents on alternative technologies for water treatment.

Some of our operations in other countries also have interfaces with protected areas. In the United States, we are part of the Serpent project, a global partnership between the oil and gas industry and academia to conduct research on marine biodiversity, based on observation of behavior and metrics of fauna around platforms and offshore facilities in the Gulf Mexico. Survey activities started in 2012 and have totaled 25 hours using remotely operated underwater vehicles.



## ACTIONS TO PROTECT BIODIVERSITY

At the end of 2012, projects sponsored by the Petrobras Environmental program, across all lines of action, recorded approximately 1,400 species of flora and fauna studied, monitored, managed, planted and/or protected, including endangered flora species such as juçara palm (*Euterpe edulis*), buriti (*Mauricia vinifera*) and Brazilian pine or candelabra tree (*Araucaria angustifolia*).

We systematically invest in conservation initiatives for endangered fauna species, particularly sponsoring projects protecting humpback whales, Atlantic goliath groupers, tortoises, Brazilian mergansers, albatrosses and porpoises in Brazil. The Aquavert project coordinated by the Mamirauá Institute for Sustainable Development works on conservation of Amazonian biodiversity, especially large aquatic vertebrate species, and covers 30 municipalities in the states of Amazonas, Acre, Rondônia, Maranhão, Pará and Roraima. At the end of 2012, ten local fauna species were being studied or monitored by this project.

The Porpoises Project (Toninhas) was among the first of its kind in South America, doing conservation work and researching porpoises in the coastal region of Santa Catarina. Individuals of the species are tracked using satellite transmitters to study biological and ecological patterns, while mapping priority areas for species conservation and environmental sensitization of shoreline communities. In 2012, for the first time, five porpoise species were captured and fitted with transmitters before being returned to their habitat.

We also partnered the Amazon Biosphere Defense Foundation to set up the CT-Petro network of research institutes and universities in the Amazon region. Studies underway relate to biological diversity of areas of influence of Urucu oil province. Highlights among the issues studied include the dynamic impact of clearings impacted by oil exploration, artificial regeneration technique for area cleared for exploration and transportation of oil and natural gas, and the characterization and analysis of soil dynamics.

We also agreed to partnerships in Brazil and other countries to ensure emergency treatment and recovery of animals debilitated by natural conditions or human activities. Petrobras America has cooperated with the Wildlife Center of Texas on rehabilitation of wild or orphaned birds and mammals in the Greater Houston area and along the upper Gulf Coast. It also supports the development of the Fastank Wildlife Rescue system, which will be available in early 2013 to assist rehabilitation of animals affected by oil spills, such as pelicans, ducks and other seabirds, marine mammals, reptiles and amphibians.



## Water resources

To ensure water supplies required for our activities, we have invested to rationalize their use. Our water resource and effluent management is based on corporate standards that include the use of technology for more efficient consumption of water, reuse projects and identifying alternative sources of supply, including local availability, environmental and social aspects and assessments of the technical and economic feasibility of these measures.

We have a computerized corporate data system for water and effluents (locally known as Data Hidro) to consolidate and simplify queries for quantitative and qualitative data on water used by our facilities. The system also tracks data of this kind for facilities run by customers or partners.

### WATER USE

In 2012, our operational and administrative activities led to an intake of 193.4 million m<sup>3</sup> of fresh water. Of this total, 128.2 million came from surface sources, 36 million from underground sources and 29.2 million were supplied by water supply utilities or third parties.



We used 271 sources of water uptake, of which 202 were located in Brazil and 69 in other countries in which we operate. Of this total, 30.6% were surface water, 35.8% groundwater and 33.6% water utilities or third parties. In all facilities that in some way took freshwater from the environment, uptake limits are established by government water management bodies as legally prescribed. In 2012, to our knowledge, there were no headwaters significantly affected qualitatively or quantitatively by our direct water uptake or discharge of our effluents.

Most of our investments to rationalize water have been in reuse projects. In 2012, our total volume of water reused was 23.5 million m<sup>3</sup>, which corresponds to 12% of total freshwater used in the period and an increase of about 9% on the previous year. This is sufficient to supply a city of 550,000 inhabitants for a year.

There are initiatives ongoing for this purpose at various units, especially Presidente Getúlio Vargas refinery (Repar) in the state of Paraná; Duque de Caxias refinery (Reduc) in Rio de Janeiro; and Abreu e Lima refinery in Pernambuco.

Our new plants due to start operating by 2015 will mean Petrobras saving some 35 million m<sup>3</sup> in terms of annual uptake of freshwater.

**WE INVESTED IN NEW TREATMENT PLANTS FOR INDUSTRIAL WASTE AT REFINING UNITS IN ORDER TO REDUCE POLLUTION DISCHARGED WITH EFFLUENTS AND ENABLE REUSE OF FINAL EFFLUENT IN THE PROCESS.**

| PETROBRAS SYSTEM - WATER INTAKE |   |              |              |                   |            |            |
|---------------------------------|---|--------------|--------------|-------------------|------------|------------|
| SOURCE                          | VOLUME INTAKE (million m <sup>3</sup> ) |              |              | VOLUME INTAKE (%) |            |            |
|                                 | 2012                                    | 2011         | 2010         | 2012              | 2011       | 2010       |
| Surface water                   | 128.2                                   | 122.5        | 128.8        | 66.3              | 64.1       | 68.8       |
| Groundwater                     | 36                                      | 39.3         | 36.5         | 18.6              | 20.3       | 19.5       |
| Municipal or third-party supply | 29.2                                    | 29.1         | 22           | 15.1              | 15.6       | 11.7       |
| <b>Totals</b>                   | <b>193.4</b>                            | <b>190.9</b> | <b>187.3</b> | <b>100</b>        | <b>100</b> | <b>100</b> |

| TOTAL VOLUME OF WATER REUSED           |      |      |      |
|--|------|------|------|
|  | 2012 | 2011 | 2010 |
| Water reused (million m <sup>3</sup> ) | 23.5 | 21.5 | 17.6 |
| Volume reused / total water used (%)   | 12   | 11.2 | 9.4  |

## EFFLUENT DISPOSAL

In 2012, 218 million m<sup>3</sup> of wastewater from our operations were discharged into the environment, including industrial and sanitary effluents. Oil and grease in discharged effluents amounted to 1,230 tons. Chemical oxygen and ammonia demand in effluent from our refining and fertilizer production in Brazil reached 4,150 and 621 tons respectively.



In 2012, as means for assimilating our effluents, we used 104 surface water bodies, 58 underground bodies and 59 water supply utilities or third party companies.

We invested in new treatment plants for industrial waste at refining units in order to reduce pollution discharged with effluents and enable reuse of final effluent in the process. We systematically ran operational control of effluents and monitored treatment of acidic waters and oil and grease content in effluent from desalination plants among other items.

| TOTAL WATER DISCHARGED BY DESTINATION - PETROBRAS SYSTEM |   |            |              |                       |            |            |
|--|---|------------|--------------|-----------------------|------------|------------|
| DESTINATION  | VOLUME DISCHARGED (million m <sup>3</sup> ) |            |              | VOLUME DISCHARGED (%) |            |            |
|  | 2012  | 2011       | 2010         | 2012                  | 2011       | 2010       |
| Surface water bodies                                     | 204.2                                       | 168.8      | 156.9        | 93.7                  | 89.8       | 90.9       |
| Groundwater bodies                                       | 7.9   | 8.1        | 9.6          | 3.6                   | 4.3        | 5.6        |
| Municipal or third party supply                          | 5.8   | 11.1       | 6.1          | 2.7                   | 5.9        | 3.5        |
| <b>Totals</b>  | <b>217.9</b>                                | <b>188</b> | <b>172.6</b> | <b>100</b>            | <b>100</b> | <b>100</b> |

## IMPROVED MANAGEMENT OF WATER RESOURCES

Our operational units have effluent treatment systems that are periodically improved as new management practices for water and effluents are developed and identified. In 2012, we had 23 projects underway related to implementing and/or upgrading effluent treatment and drainage systems.

Savings resulting from rationalizing, such as reuse, helped to reduce uptake of water that may be used for human consumption, in addition to ensuring we have secure sources of supply. In 2012, we concluded a technical guidebook on the conservation and reuse of water for our administrative areas, which suggest practical measures for water conservation and reuse programs to Petrobras System administrative areas, using technologies applicable in these buildings.

During 2012, we took part in 34 forums in Brazil and other countries in order to contribute to participatory management of water resources by river basins in which our facilities are located. We also conducted research on water availability in basins where we have refining operations in order to update short, medium and long-term scenarios for sources of water supplies required for those units, identifying risks and proposing alternative supplies.

A highlight on the refining operations was the introduction of pioneers processes for effluent reuse. At our Regap refinery, for example, for the first time, effluent was reused into the cooling system through reverse electro dialysis desalination, thus saving 293,000 m<sup>3</sup> of water in 2012.



Our Revap refinery launched a new industrial waste treatment plant with capacity for up to 300 m<sup>3</sup> of effluents per hour, with potential savings of up to 2.6 million m<sup>3</sup> of water per year. The unit has implemented a pioneering project using membrane bioreactor technology for biological treatment of oily effluents from refineries. The same technology was implemented at Repar refinery, where the new station will allow reusing 200 m<sup>3</sup> of effluents per hour.

We started operations of the Water Treatment and Reuse Station at our R&D center (Cenpes), which will treat sewage and industrial waste from the whole site to save estimated annual discharges of 600 m<sup>3</sup> of water. Rainwater capture was integrated to the project so that Cenpes can hold a 4-day reserve without the need to use public water supplies for industrial processes. The initiative will deliver annual savings of R\$ 12 million.

A program to reduce water consumption at Petrobras Distribuidora includes, among other things, capturing rainwater and reusing treated wastewater for toilets, washing vehicles, asphalt emulsion manufacturing processes, and watering gardens and lawns. One example of the above is using water from washing floors during the asphalt manufacturing process, which takes up all water used in the production process for the final product without generating liquid effluents.





# Materials and wastes

We are mapping opportunities for minimizing waste generation in our activities and encouraging reuse and recycling, while identifying and testing cleaner technologies and innovative treatment processes. Another focus for our work is constant improvement of our waste data management system.

## CONSUMPTION OF MATERIALS

Petrobras System decentralizes procurement of goods and services as the responsibility of the different areas and units. Our asphalt solutions company Stratura, for example, consumed 299,436 tons of asphalt cement, a raw material provided by Petrobras itself, and some 5,144 tons of metal drums, plastic buckets, boxes, and pallets made from recycled wood. Our lubricant factory consumed 30,300 tons of additives in 2012 and more than 95% of the metal vessels used were reconditioned and 59% of plastic packages were recycled.

In 2012, highlights among practices at our plants included solvent recycling equipment on construction sites enabling recovery of up to 98% of solvent used. The recycled material is reused for construction and assembly activities, thus avoiding the need to purchase new solvent and lowering consumption of natural resources.

Another important initiative was our campaign to encourage selective collection of debris for recycling, which led to a 40% increase in recycling at one of our projects - a good practice that will be replicated at other sites.

## SOLID WASTE

Our Waste Minimization program identifies measures to avoid generating waste, or reduce/ reuse / recycle waste produced by our activities. Our innovative treatment technologies are adopted after examining the technical, economic, and environmental sustainability of the process as a whole.

Among technologies we studied in 2012, a highlight was the pilot test for treatment of sediments by dewatering in sedimenting pools developed at Regap; phytoremediation treatment using certain strains of vegetation at Recap; and impacted area remediation using Electrical Resistance Heating (ERH) technology.

In offshore activities, only waste fluid and mud and cuttings from water-based drilling are discarded directly into the sea, in line with criteria required by environmental licensing for this activity. Wastes that are not disposed offshore are sent for treatment and/or disposal by specialist companies licensed as per Brazilian legal requirements.

**IN 2012, HIGHLIGHTS  
AMONG PRACTICES  
AT OUR PLANTS  
INCLUDED SOLVENT  
RECYCLING  
EQUIPMENT ON  
CONSTRUCTION  
SITES ENABLING  
RECOVERY OF  
UP TO 98% OF  
SOLVENT USED.**

To minimize waste generated in operations at sea we are continuously reusing non-aqueous based drilling fluids and some waste becomes raw material for the fluid manufacturing process. Our onshore activity incorporates and co-processes mud and cuttings waste for recycling.

In 2012, hazardous solid waste generated by our processes amounted to 261,000 tons, which was 24% below the alarm threshold set for the period. Some 39% of all hazardous waste we sent for treatment and disposal was reused.

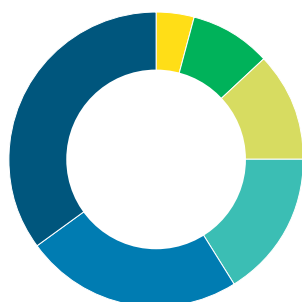
Our suppliers of environmental services are regularly audited, particularly those involving transport, treatment, disposal, and chemical analysis of waste in order to raise operating standards and improve quality of service while minimizing environmental and economic risk.

There was no international transport of waste in 2012.

| PRODUCTION X HAZARDOUS WASTE GENERATED |  |   |
|--|--|---|
| YEAR                                   | OIL PRODUCED<br>(million m <sup>3</sup> / day) | HAZARDOUS WASTE GENERATED<br>(thousands of tons / year) |
| 2010                                   | 318  | 277   |
| 2011                                   | 321  | 285   |
| 2012                                   | 315  | 261   |

Numbers for hazardous waste generated in 2010 and 2011 were altered in relation to the 2011 Sustainability Report due to the rectification of exploration and production results.

#### QUANTITIES OF WASTE BY DESTINATION



|                        |     |
|------------------------|-----|
| Reused as fuel         | 35% |
| Recovery and recycling | 24% |
| Biological treatment   | 12% |
| Incineration           | 9%  |
| Landfill disposal      | 4%  |
| Other                  | 16% |

| TOTAL DRILLING FLUID AND SPOILS GENERATED BY DISPOSAL METHOD (tons) |            |           |                        |                      |           |
|---|------------|-----------|------------------------|----------------------|-----------|
| Drilling spoils   | Reinjected | Recycling | Final disposal onshore | Disposal offshore    | Generated |
| Waterbased drilling fluid   | 0          | 0         | 2,025                  | 228,868              | 244,472   |
| Cuttings associated with waterbased drilling fluid                  | 0          | 0         | 0                      | 88,026               | 88,026    |
| Non-aqueous based drilling fluid                                    | 0          | 0         | 10,979                 | 1,827 <sup>(1)</sup> | 400,876   |
| Cuttings associated with non-aqueous drilling fluid                 | 0          | 0         | 8                      | 55,003               | 55,011    |

1) Fluid discarded with cuttings.

Information refers to management of fluids and cuttings from offshore drilling.

# Products and services

Possible negative impacts of our products and services on the environment and human health are associated mainly with the use of natural resources, consumption of materials, greenhouse gas emissions, and generation and disposal of waste and effluents. Therefore, we have developed management systems, corporate guidance and mitigation measures in all our operational and administrative units.

In order to minimize risks directly associated with handling fuels at gas pumps or service stations, we have safety labels attached in visible places to show general precautions for users, instructions for replenishing gas (CNG), response in the event of an accident, emergency telephones, and other items. In addition, there may be more information available through advertising campaigns and point of sale displays.

We invest in technological development to diversify our product portfolio and raise production efficiency in order to provide fuel and packaging to high standards of environmental safety and quality. Our biofuel company's innovative efforts enabled it to develop second-generation ethanol from sugarcane bagasse, thus boosting potential ethanol yield from each unit of area planted by 40%. Its first plant producing on these lies is due to start operating in 2015. We are also investing in research on bio-kerosene for aviation fuel (BioAVK), for which there is growing demand worldwide. In 2012, in Extremoz (RN), we opened a pilot plant growing microalgae, which will advance research on the potential of microalgae as an alternative supply of oils for biodiesel.

Petrobras Uruguay's distribution company ran an oil collection and disposal program that led to return of 4.5% of all oil used in relation to volume sales of new oil.

In Brazil, lubricant packaging disposal has been addressed through a program known as "Fair Play", managed by Brazil's National Fuel and Lubricants Distributors organization (Sindicom), of which Petrobras Distribuidora is a member. Plastic containers are delivered by retailers to trucks or directly to a collection center, where they are given initial treatment before being forwarded to licensed recycling companies.

Our Liquigás liquid gas company distributes LPG in cylinders (or steel bottles) with an average lifespan of 27 years. Whenever they are returned to the Operational Center for refilling, cylinders are processed for washing and painting, with visual inspection of their usage condition, and sent for maintenance when required. After 15 years' use, they are reconditioned. In 2012, of 2.36 million cylinders or bottles sent for reconditioning, 158,000 were scrapped as non-recoverable. The remaining 2.2 million were reconditioned with 100% of their regulator valves repaired or replaced.

**WE INVEST IN  
TECHNOLOGICAL  
DEVELOPMENT  
TO DIVERSIFY  
OUR PRODUCT  
PORTFOLIO AND  
RAISE PRODUCTION  
EFFICIENCY IN ORDER  
TO PROVIDE FUEL  
AND PACKAGING TO  
HIGH STANDARDS  
OF ENVIRONMENTAL  
SAFETY AND  
QUALITY.**





## Environmental liabilities

We are constantly investing to upgrade risk management and plans for emergency responses to cope with extreme situations quickly and effectively, in order to minimize potential impacts. Our environmental protection centers specialize in contingency actions and we run periodical simulations to analyze procedures and training for emergency control teams, our workforce, and communities around facilities.

In 2012, we adopted a new model for reporting, treating and recording leaks or spills, with monitoring on a daily basis for such incidents, their impacts, and mitigation measures. We also drafted our Zero Spill Plan for business areas and subsidiary companies, involving actions in terms of management, process and integrity to improve management and lower spillage or leakage risk.

### SPILLS

Spills of oil and oil products reached 387 m<sup>3</sup>, which was 36% below the 601-m<sup>3</sup> alarm limit set for 2012. Spillage levels remained below 1 m<sup>3</sup> per million barrels of oil produced, which constitutes a benchmark for excellence in the oil and gas industry worldwide. None of the 71 cases reported were classified as large-scale spills.

| SPILLS - TOTAL NUMBER AND VOLUME |                     |                                |
|----------------------------------|---------------------|--------------------------------|
| YEAR                             | NUMBER OF INCIDENTS | TOTAL VOLUME (m <sup>3</sup> ) |
| 2010                             | 57                  | 668                            |
| 2011                             | 66                  | 234                            |
| 2012                             | 71                  | 387                            |
| Alarm threshold 2012             |                     | 601                            |

Includes any spill of more than 1 barrel (0.159 m<sup>3</sup>) that reaches the environment.

## TRANSPORTING PRODUCTS

The most significant potential environmental impacts from transporting our products, materials, waste and workers involve energy consumption, atmospheric emissions, spillage risk, and solid waste generation (particularly used tires). Oil and oil derivative products and biofuels are mainly transported by pipeline, ship, or truck. River transport is the main option in the state of Amazonas, usually on the Solimões or Urucu rivers. The biggest environmental impact is on washout of the banks of the upper Urucu, and the main mitigation measures are controlling speed on the river and banning nighttime sailing on stretches where the banks are higher.



Compared with road transport, our pipelines show significant environmental benefits in terms of greater flexibility, increased operational safety, fewer accidents and spills and lower volume of atmospheric emissions. We are therefore investing to improve and extend our network of pipelines and its reliability through initiatives such as the Pipeline Structural Integrity program. Similarly, we manage potential environmental risks from this mode of transport, such as biodiversity impacts.

Our road transport service providers are required to conduct periodic inspections of vehicles and their environmental permits, emergency response plans, and routing documents. Vehicles carrying hazardous loads are inspected for more specific issues. Our risk management program for road transport of products of Petrobras Distribuidora includes activities focusing drivers, fleets, and surroundings. Our integrated transport support centers at key units carry out transport management activities emphasizing driver training and education. We also have an emergency response structure.

In order to reduce emissions from transport, we take measures to control emission from vehicles and require age limits for vehicles to lower fuel consumption, emissions, and noise, with safer operations too. Over the past three years, Liquigás has renewed its fleet of LPG tanker delivery vehicles. Even in the segments in which it operates with subcontractor fleets, it has required newer vehicles, since 2007. In addition, the company introduced its computerized system for emergencies, which improves logistics operations, monitors trucks' progress and supports plans for LPG transport risks.



## FINES

Since 2006, two lawsuits filed by the State of Paraíba program for consumer defense (Procon) are in progress against Petrobras Distribuidora, relating to increased fuel price without just cause, to which Petrobras present administrative defense. One of the processes is in dispute and both of them total an amount of R\$ 7.5 million in fines.

There were four significant cases of non-conformity with environmental laws and regulations, resulting in a total R\$ 19.1 million in fines and compensation. Of these cases, three were administrative proceedings, two of them brought by the Brazilian Institute for the Environment and Renewable Natural Resources (IBAMA) alleging failure to analyze and monitor quality of water produced, and one by the Institute of Environmental Protection of the State of Amazonas (Ipaam) in relation to a suspected oil spill. An action under civil law was brought by Federal prosecutors for alleged irregularities in monitoring oil and grease content of water produced and discharged by the Curimã-1 platform. The above includes only fines for R\$ 1 million or more.

Liquigas has eight cases in progress, considered by the National Agency of Petroleum, Natural Gas and Biofuels (ANP) as nonconformity of products with the law, understood by ANP as harmful to health and safety of the consumer.



# Annexes



# Annual Social Balance

| 1 - CALCULATION BASE                                     | 2012 Value (RS\$ million) | 2011 Value (RS\$ million) |
|--|---------------------------|---------------------------|
| Consolidated sales revenue (NR)                          | 281,379                   | 244,176                   |
| Income before profit sharing and consolidated taxes (RO) | 28,758                    | 45,911                    |
| Consolidated gross payroll                               | 15,511                    | 13,026                    |

| 2 - INTERNAL SOCIAL INDICATORS            | Value         | % gross payroll | % Of NR     | Value         | % gross payroll | % of NR     |
|---|---------------|-----------------|-------------|---------------|-----------------|-------------|
| Meals                                     | 890           | 5.74            | 0.32        | 845           | 6.49            | 0.35        |
| Compulsory social charges                 | 7,707         | 49.69           | 2.74        | 6,477         | 49.72           | 2.65        |
| Private pension                           | 686           | 4.42            | 0.24        | 328           | 2.52            | 0.13        |
| Health                                    | 2,888         | 18.62           | 1.03        | 2,427         | 18.63           | 0.99        |
| Occupational health and safety            | 201           | 1.30            | 0.07        | 180           | 1.38            | 0.07        |
| Education                                 | 175           | 1.13            | 0.06        | 133           | 1.02            | 0.05        |
| Culture                                   | 10            | 0.06            | 0.00        | 11            | 0.08            | 0.00        |
| Professional training and development     | 501           | 3.23            | 0.18        | 418           | 3.21            | 0.17        |
| Daycare or childcare assistance           | 99            | 0.64            | 0.04        | 90            | 0.69            | 0.04        |
| Participation in profits or results       | 1,005         | 6.48            | 0.36        | 1,560         | 11.98           | 0.64        |
| Other                                     | 82            | 0.53            | 0.03        | 76            | 0.58            | 0.03        |
| <b>Total - Internal social indicators</b> | <b>14,244</b> | <b>91.84</b>    | <b>5.07</b> | <b>12,545</b> | <b>96.31</b>    | <b>5.14</b> |

| 3 - EXTERNAL SOCIAL INDICATORS                           | Value          | % of RO       | % of NR      | Value         | % of RO       | % of NR      |
|--|----------------|---------------|--------------|---------------|---------------|--------------|
| Income and Employment Opportunity                        | 51             | 0.18          | 0.02         | 48            | 0.10          | 0.02         |
| Education for Occupational Qualification                 | 61             | 0.21          | 0.02         | 57            | 0.12          | 0.02         |
| Assuring Children and Adolescents' Rights <sup>(i)</sup> | 60             | 0.21          | 0.02         | 70            | 0.15          | 0.03         |
| Culture  | 189            | 0.66          | 0.07         | 182           | 0.40          | 0.07         |
| Sport  | 61             | 0.21          | 0.02         | 80            | 0.17          | 0.03         |
| Other  | 29             | 0.10          | 0.01         | 33            | 0.07          | 0.01         |
| <b>Total contributions to society</b>                    | <b>451</b>     | <b>1.57</b>   | <b>0.16</b>  | <b>470</b>    | <b>1.02</b>   | <b>0.19</b>  |
| Taxes (excluding social charges)                         | 100,087        | 348.03        | 35.57        | 97,826        | 213.08        | 40.06        |
| <b>Total - External Social Indicators</b>                | <b>100,538</b> | <b>349.60</b> | <b>35.73</b> | <b>98,296</b> | <b>214.10</b> | <b>40.26</b> |

| 4 - ENVIRONMENTAL INDICATORS                          | Value        | % of RO      | % of NR     | Value        | % of RO     | % of NR     |
|---|--------------|--------------|-------------|--------------|-------------|-------------|
| Investments related to company production / operation | 2,827        | 9.83         | 1.00        | 2,550        | 5.55        | 1.04        |
| Investments in external programs and/or projects      | 101          | 0.35         | 0.04        | 172          | 0.37        | 0.07        |
| <b>Total investments in the environment</b>           | <b>2,928</b> | <b>10.18</b> | <b>1.04</b> | <b>2,722</b> | <b>5.93</b> | <b>1.11</b> |

In relation to setting "annual targets" to minimize waste, consumption during production / operation and increase efficient use of natural resources, the company

( ) has no targets  
 ( ) reaches 51 - 75%  
 ( ) reaches 0 - 50%  
 (X) reaches 76 - 100%

( ) has no targets  
 ( ) reaches 51 - 75%  
 ( ) reaches 0 - 50%  
 (X) reaches 76 - 100%

| 5 – WORKFORCE INDICATORS  | 2012    | 2011    |
|---|---------|---------|
| Number of employees at end-period                                 | 85,065  | 81,918  |
| Number of admissions during period <sup>(ii)</sup>                | 4,017   | 3,447   |
| Number of employees of service providers                          | 360,372 | 328,133 |
| Number of trainees  | 1,887   | 1,825   |
| Number of employees aged over 45                                  | 37,374  | 35,927  |
| Number of women workers in company                                | 14,536  | 13,860  |
| % of management positions held by women                           | 15%     | 14.4%   |
| Number black men/women workers in company <sup>(iii)</sup>        | 20,158  | 18,468  |
| % of management positions held by black men/women <sup>(iv)</sup> | 24.6%   | 24.9%   |
| Number of persons with disability or special needs <sup>(v)</sup> | 1,120   | 1,104   |

| 6 – MATERIAL DATA IN RELATION TO CORPORATE CITIZENSHIP   | 2012   |  |  | 2013 Targets  |  |  |
|--|--|--|--|---|--|--|
| Ratio between highest and lowest salary <sup>(vi)</sup>  | 20.54  |  |  | 20.54   |  |  |
| Total number of work-related accidents <sup>(vii)</sup>  | 6,729  |  |  | 6,350   |  |  |
| Social and environmental projects developed by the company were decided by:  | <input type="checkbox"/> senior management                             | <input checked="" type="checkbox"/> senior management and managers | <input type="checkbox"/> all employees                         | <input type="checkbox"/> senior management                              | <input checked="" type="checkbox"/> senior management and managers | <input type="checkbox"/> all employees                               |
| The company's workplace health and safety standards were decided by:   | <input checked="" type="checkbox"/> senior management and managers     | <input type="checkbox"/> all employees                             | <input type="checkbox"/> all + accident prevention commission  | <input checked="" type="checkbox"/> senior management and managers      | <input type="checkbox"/> all employees                             | <input type="checkbox"/> all + accident prevention commission        |
| In relation to freedom of association, right to collective bargaining and internal representation of employees, the company: | <input type="checkbox"/> does not get involved                         | <input type="checkbox"/> follows ILO rules                         | <input checked="" type="checkbox"/> encourages and follows ILO | <input type="checkbox"/> will not get involved                          | <input type="checkbox"/> will follow ILO rules                     | <input checked="" type="checkbox"/> encourages and will follow ILO   |
| The pension plan covers:   | <input type="checkbox"/> senior management                             | <input type="checkbox"/> senior management and dept-managers       | <input checked="" type="checkbox"/> all employees              | <input type="checkbox"/> senior management                              | <input type="checkbox"/> senior management and dept-managers       | <input checked="" type="checkbox"/> all employees                    |
| Profit sharing covers:   | <input type="checkbox"/> senior management                             | <input type="checkbox"/> senior management and dept-managers       | <input checked="" type="checkbox"/> all employees              | <input type="checkbox"/> senior management                              | <input type="checkbox"/> senior management and dept-managers       | <input checked="" type="checkbox"/> all employees                    |
| When selecting suppliers, the ethical and social responsibility standards adopted by the company itself:                     | <input type="checkbox"/> are not considered                            | <input type="checkbox"/> are suggested                             | <input checked="" type="checkbox"/> are required               | <input type="checkbox"/> will not be considered                         | <input type="checkbox"/> will be suggested                         | <input checked="" type="checkbox"/> will be required                 |
| In relation to employees taking part in voluntary work programs, the company:  | <input type="checkbox"/> does not get involved                         | <input type="checkbox"/> offers support                            | <input checked="" type="checkbox"/> organizes and encourages   | <input type="checkbox"/> will not get involved                          | <input type="checkbox"/> will offer support                        | <input checked="" type="checkbox"/> will organize and will encourage |
| Total number of consumer complaints and criticisms: <sup>(viii)</sup>  | in the company 16,752  | in Procon 10   | in courts 32   | in the company 8,300  | in Procon 0  | in courts 0  |
| % of complaints and criticisms addressed or resolved: <sup>(viii)</sup>  | in the company 94.2%   | in Procon 30%  | in courts 53%  | in the company 99%  | in Procon -  | in courts -  |
| Total added value to distribute (in thousands of R\$):   | <b>In 2012: 181,789</b>  |  |  | <b>In 2011: 181,081</b>   |  |  |
| Distribution of Added Value  | 57% government 13% employees<br>5% shareholders 18% others 7% retained |  |  | 58% government 10% employees<br>7% shareholders 13% others 12% retained |  |  |

## 7 – OTHER INFORMATION

- The company does not use child labor or slave labor, nor is it involved in prostitution or sexual exploitation of children or adolescents, or corruption.
- The company recognizes and respects diversity internally and externally.

- Includes R\$ 3.3 million transfer to the Fund for Childhood and Adolescence (local acronym FIA).
- Petrobras System data for Brazil referring to admissions through public selection procedures.
- Data for employees of Petrobras Controladora, Petrobras Distribuidora, Transpetro and Liquigás self-reporting as black (skin color brown or black).
- Of all Petrobras Controladora leadership positions held by employees who reported their race / color, 24.6% are held by people who declared they were black ((skin color brown or black)).
- Data for Petrobras Controladora, Petrobras Distribuidora and Transpetro, corresponding to 5.6% of positions in which set-aside for people with disabilities is applicable.
- Includes the following companies: Petrobras Controladora, Petrobras Distribuidora, Transpetro, Liquigás and Petrobras Biocombustíveis.
- As of 2012, we also started reporting numbers of accidents without time off and cases given first aid, as well as numbers of fatalities and accidents with time off (lost time), as reported until 2012. This broader coverage of the data explains the substantial variation in relation to data published in previous years.
- Data in company include number of complaints and criticisms received by Petrobras Controladora, Petrobras Distribuidora and Liquigás. Targets for 2013 do not contain Petrobras Distribuidora call center estimates.
- Some values differ from those disclosed in the 2012 Management Report due to revaluations by independent auditors.

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| Indicator                     | Description  | Section   |
|-------------------------------|--|---|
| <b>PROFILE</b>                |  |   |
| <b>Strategy and Analysis</b>  |  |   |
| 1.1                           | Statement from the most senior decision-maker of the organization (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy | Message from our President  |
| 1.2                           | Description of key impacts, risks and opportunities  | Message from our President<br>Business Plan management actions<br>Risk Management<br>Accident prevention<br>Environmental risks<br>Credit<br>Relations with communities<br>Evaluation of impacts<br>Accidents and diseases<br>Human rights in the business chain<br>Climate Change<br>Managing emissions<br>Management of risks and impacts<br>Sensitive and protected areas<br>Actions to protect biodiversity<br>Water resources<br>Materials and wastes<br>Products and services<br>Environmental liabilities<br>Spills<br>Transporting products |
| <b>Organizational Profile</b> |  |   |
| 2.1                           | Name of the organization   | Profile   |
| 2.2                           | Primary brands, products, and/or services  | Products and services<br>The Petrobras brand  |
| 2.3                           | Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures   | Organizational Structure  |
| 2.4                           | Location of organization's headquarters  | Profile   |
| 2.5                           | Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report  | Markets served  |
| 2.6                           | Nature of ownership and legal form   | Profile   |
| 2.7                           | Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)  | Markets served  |
| 2.8                           | Scale of the reporting organization  | Cover<br>Profile  |
| 2.9                           | Significant changes during the reporting period regarding size, structure, or ownership  | Organizational Structure<br>Investor relations  |
| 2.10                          | Awards received in the reporting period  | Recognition, awards and certificates  |
| <b>Report Parameters</b>      |  |   |
| 3.1                           | Reporting period (e.g., fiscal/calendar year) for information provided   | About the report  |
| 3.2                           | Date of most recent previous report (if any)   | About the report  |
| 3.3                           | Reporting cycle (annual, biennial, etc.)   | About the report  |
| 3.4                           | Contact point for questions regarding the report or its contents   | Contact Us  |
| 3.5                           | Process for defining report content, including: determining materiality, prioritizing topics within the report; and identifying stakeholders the organization expects to use the report.       | Materiality   |
| 3.6                           | Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance                                | Coverage  |

Essential Indicators

Additional Indicators



| Indicator                                      | Description  | Section   |
|--|--|---|
| <b>Report Parameters</b>                       |  |   |
| 3.7  | State any specific limitations on the scope or boundary of the report  | Parameters  |
| 3.8  | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations   | Coverage  |
| 3.9  | Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report  | Parameters  |
| 3.10   | Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/ acquisitions, change of base years/periods, nature of business, measurement methods).   | Parameters  |
| 3.11   | Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report   | Parameters  |
| 3.12   | Table identifying the location of the Standard Disclosures in the report   | Table of Contents GRI   |
| 3.13   | Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided. Also explain the relationship between the reporting organization and the assurance provider(s) | Parameters<br>Independent Auditors' Limited Assurance Report (available only in the Portuguese version) |
| <b>Governance, Commitments, and Engagement</b> |  |   |
| 4.1  | Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight  | Corporate Governance Model  |
| 4.2  | Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organization's management and the reasons for this arrangement)  | Board of directors  |
| 4.3  | For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members   | Workforce diversity   |
| 4.4  | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body   | Board of directors  |
| 4.5  | Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance)   | Executive compensation  |
| 4.6  | Processes in place for the highest governance body to ensure conflicts of interest are avoided   | Member profile  |
| 4.7  | Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity   | Member profile  |
| 4.8  | Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation  | Cover   |
| 4.9  | Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles                        | Board of directors<br>Committees  |
| 4.10   | Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance   | Not Informed  |
| 4.11   | Explanation of whether and how the precautionary approach or principle is addressed by the organization  | Environmental risks   |
| 4.12   | Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses   | Global Compact<br>Commitments signed  |
| 4.13   | Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: has positions in governance bodies; participates in projects or committees; provides substantive funding beyond routine membership dues; or views membership as strategic                | Participation in forums and entities  |
| 4.14   | List of stakeholder groups engaged by the organization   | Petrobras stakeholders  |
| 4.15   | Basis for identification and selection of stakeholders with whom to engage   | Our stakeholders  |

Essential Indicators

Additional Indicators

| Indicator                                      | Description  | Section  |
|--|--|--|
| <b>Governance, Commitments, and Engagement</b> |  |  |
| 4.16   | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.  | Communication and relationship Investor relations<br>Dialogue with suppliers<br>Relations with communities   |
| 4.17   | Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting                                       | Principal demands and measures taken<br>Dialogue with suppliers<br>Evaluation of impacts   |
| <b>ECONOMIC</b>                                |  |  |
|  | Disclosure on Management Approach  | Corporate governance<br>Business Drivers<br>Bylaws and codes<br>Rules and Standards<br>Business and Management Plan<br>Planned investments<br>Business Plan management actions<br>Investor relations<br>Economic and financial results Financing<br>Contribution to economic development<br>Brazilian industry<br>Occupational qualification<br>Supplier support and development |
| <b>Economic Performance</b>                    |  |  |
| EC1  | Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments | Distribution of value added  |
| EC2  | Financial implications and other risks and opportunities for the organization's activities due to climate change   | Risks and opportunities  |
| EC3  | Coverage of the organization's defined benefit plan obligations  | Benefits offered in Brazil   |
| EC4  | Significant financial assistance received from government  | Economic and financial results   |
| <b>Market presence including local content</b> |  |  |
| EC5  | Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation  | Compensation and benefits  |
| EC6  | Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation   | Supplier management<br>Supplier support and development<br>Selection and assessment  |
| EC7  | Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation   | Workforce  |
| <b>Indirect economic impacts</b>               |  |  |
| EC8  | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement  | Supplier support and development<br>Agenda 21<br>Evaluation of impacts<br>Social investment<br>Social projects<br>Environmental projects<br>Sports projects<br>Cultural projects   |
| EC9  | Understanding and describing significant indirect economic impacts, including the extent of impacts  | Evaluation of impacts  |
| <b>Reserves</b>                                |  |  |
| OG1  | Volume and type of estimated proved reserves and production  | Exploration and Production   |
| <b>ENVIRONMENTAL</b>                           |  |  |
|  | Disclosure on Management Approach  | Strategy and governance Managing emissions<br>Biodiversity<br>Water resources<br>Environmental liabilities   |

Essential Indicators

Additional Indicators

| Indicator                              | Description  | Section   |
|--|--|---|
| <b>Materials</b>                       |  |   |
| EN1                                    | Materials used by weight or volume   | Consumption of materials  |
| EN2                                    | Percentage of materials used that are recycled input materials   | Consumption of materials  |
| <b>Energy</b>                          |  |   |
| EN3                                    | Direct energy consumption by primary energy source   | Energy consumed   |
| OG2                                    | Total amount invested in renewable energy  | Biofuels  |
| OG3                                    | Total amount of renewable energy generated by source   | Biodiesel<br>Ethanol  |
| EN4                                    | Indirect energy consumption by primary source  | Energy consumed   |
| EN5                                    | Energy saved due to conservation and efficiency improvements   | Energy efficiency   |
| EN6                                    | Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives  | Energy efficiency<br>Conscious consumption<br>Products and services   |
| EN7                                    | Initiatives to reduce indirect energy consumption and reductions achieved  | Energy efficiency   |
| <b>Water</b>                           |  |   |
| EN8                                    | Total water withdrawal by source   | Water use   |
| EN9                                    | Water sources significantly affected by withdrawal of water  | Water use   |
| EN10                                   | Percentage and total volume of water recycled and reused   | Water use   |
| <b>Biodiversity</b>                    |  |   |
| EN11                                   | Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas  | Sensitive and protected areas   |
| EN12                                   | Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas                                     | Management of risks and impacts<br>Sensitive and protected areas  |
| EN13                                   | Habitats protected or restored   | Actions to protect biodiversity   |
| EN14                                   | Strategies, current actions, and future plans for managing impacts on biodiversity   | Biodiversity<br>Management of risks and impacts<br>Sensitive and protected areas<br>Actions to protect biodiversity |
| OG4                                    | Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored  | Management of risks and impacts   |
| EN15                                   | Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk  | Sensitive and protected areas<br>Actions to protect biodiversity  |
| <b>Emissions, Effluents, and Waste</b> |  |   |
| EN16                                   | Total direct and indirect greenhouse gas emissions by weight   | Volume emissions  |
| EN17                                   | Other relevant indirect greenhouse gas emissions by weight   | Volume emissions  |
| EN18                                   | Initiatives to reduce greenhouse gas emissions and reductions achieved   | Climate Change<br>Key mitigating actions and results<br>Risks and opportunities<br>Managing emissions               |
| EN19                                   | Emissions of ozone-depleting substances by weight  | Volume emissions  |
| EN20                                   | NO <sub>x</sub> , Sox, and other significant air emissions by type and weight  | Volume emissions  |
| EN21                                   | Total water discharge by quality and destination   | Effluent disposal   |
| OG5                                    | Volume of formation or produced water  | Not informed  |
| EN22                                   | Total weight of waste by type and disposal method  | Solid waste   |
| EN23                                   | Total number and volume of significant spills  | Spills  |
| OG6                                    | Volume of flared and vented hydrocarbon  | Volume emissions  |
| OG7                                    | Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal  | Solid waste<br>Management of risks and impacts  |
| EN24                                   | Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally | Solid waste   |

Essential Indicators

Additional Indicators

| Indicator                              | Description   | Section  |
|--|---|--|
| <b>Emissions, Effluents, and Waste</b> |   |  |
| EN25                                   | Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff | Effluent disposal<br>Improved management of water resources  |
| <b>Products and Services</b>           |   |  |
| EN26                                   | Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation   | Product Liability<br>Product quality<br>Programs developed<br>Key mitigating actions and results<br>Improved management of water resources<br>Solid waste<br>Products and services |
| OG8                                    | Benzene, lead and sulfur content in fuels   | Product quality  |
| EN27                                   | Percentage of products sold and their packaging materials that are reclaimed by category  | Products and services  |
| <b>Compliance</b>                      |   |  |
| EN28                                   | Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations  | Fines  |
| <b>Transport</b>                       |   |  |
| EN29                                   | Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.         | Transporting products  |
| <b>Overall</b>                         |   |  |
| EN30                                   | Total environmental protection expenditures and investments by type   | Strategy and governance  |
| <b>SOCIAL</b>                          |   |  |
| <b>Labor Practices and Decent Work</b> |   |  |
|  | Disclosure on Management Approach   | Business Drivers<br>Our policies<br>Strategy<br>People management<br>Health and safety programs<br>Agreements and initiatives  |
| <b>Employment</b>                      |   |  |
| LA1                                    | Total workforce by employment type, employment contract, and region, broken down by gender  | Workforce  |
| LA2                                    | Total number and rate of new employee hires and employee turnover by age group, gender, and region  | Workforce<br>Turnover  |
| LA3                                    | Benefits provided to full-time employees that are not provided to temporary or parttime employees, by significant locations of operation  | Compensation and benefits  |
| LA15                                   | Return to work and retention rates after parental leave, by gender  | Workforce diversity  |
| <b>Labor/Management relations</b>      |   |  |
| LA4                                    | Percentage of employees covered by collective bargaining agreements   | Freedom of association   |
| LA5                                    | Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements  | Freedom of association   |
| <b>Occupational Health and Safety</b>  |   |  |
| LA6                                    | Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs    | Freedom of association   |
| LA7                                    | Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender  | Accidents and diseases   |
| LA8                                    | Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases        | Health and safety programs   |
| LA9                                    | Health and safety topics covered in formal agreements with trade unions   | Health and safety at work  |

Essential Indicators

Additional Indicators

| Indicator   | Description   | Section   |
|---|---|---|
| <b>Training and Education</b>                           |   |   |
| LA10  | Average hours of training per year per employee by gender, and by employee category   | Occupational development and performance assessment   |
| LA11  | Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings   | Occupational development and performance assessment   |
| LA12  | Percentage of employees receiving regular performance and career development reviews, by gender   | Occupational development and performance assessment   |
| <b>Diversity and equal opportunity</b>                  |   |   |
| LA13  | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity                                    | Workforce diversity   |
| <b>Equal remuneration for women and men</b>             |   |   |
| LA14  | Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation  | Workforce diversity   |
| <b>Human Rights</b>                                     |   |   |
|   | Disclosure on Management Approach   | Business drivers<br>Our policies<br>Global Compact<br>Commitments signed<br>Diversity and gender equity<br>Agreements and initiatives<br>Human rights in the business chain |
| <b>Investment and Procurement Practices</b>             |   |   |
| HR1   | Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening                            | Human rights in the business chain  |
| HR2   | Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening, and actions taken   | Human rights in the business chain  |
| HR3   | Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained                                     | Human rights in the business chain  |
| <b>Non-discrimination</b>                               |   |   |
| HR4   | Total number of incidents of discrimination and corrective actions taken  | Complaints  |
| <b>Freedom of association and collective bargaining</b> |   |   |
| HR5   | Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights | Freedom of association  |
| <b>Child Labor</b>                                      |   |   |
| HR6   | Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor                               | Human rights in the business chain  |
| <b>Forced and compulsory labor</b>                      |   |   |
| HR7   | Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor  | Human rights in the business chain  |
| <b>Security Practices</b>                               |   |   |
| HR8   | Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.   | Anti-corruption measures  |
| <b>Indigenous Rights</b>                                |   |   |
| HR9   | Total number of incidents of violations involving rights of indigenous people and actions taken   | Relations with communities  |
| OG9   | Operations where indigenous communities are present or affected by activities and where specific engagement strategies are in place   | Relations with communities  |

Essential Indicators

Additional Indicators



| Indicator                                 | Description   | Section   |
|---|---|---|
| <b>Assessment</b>                         |   |   |
| HR10                                      | Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments                                      | Human rights in the business chain  |
| <b>Remediation</b>                        |   |   |
| HR11                                      | Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms  | Complaints  |
| <b>Society</b>                            |   |   |
|   | Disclosure on Management Approach   | Corporate structure<br>Bylaws and codes<br>Our policies<br>Global Compact<br>Transparency and accountability<br>Complaints<br>Anti-corruption measures<br>Relations with communities Agenda 21<br>Evaluation of impacts |
| <b>Local Communities</b>                  |   |   |
| S01                                       | Percentage of operations with implemented local community engagement, impact assessments, and development programs                                      | Evaluation of impacts   |
| S09                                       | Operations with significant potential or actual negative impacts on local communities   | Relations with communities Agenda 21<br>Evaluation of impacts   |
| S010                                      | Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities                 | Evaluation of impacts   |
| OG10                                      | Number and description of significant disputes with local communities and indigenous peoples  | Relations with communities  |
| OG11                                      | Number of sites that have been decommissioned and sites that are in the process of being decommissioned   | Relations with communities  |
| <b>Corruption</b>                         |   |   |
| S02                                       | Percentage and total number of business units analyzed for risks related to corruption  | Anti-corruption measures  |
| S03                                       | Percentage of employees trained in organization's anti-corruption policies and procedures   | Anti-corruption measures  |
| S04                                       | Actions taken in response to incidents of corruption  | Anti-corruption measures  |
| <b>Public Policy</b>                      |   |   |
| S05                                       | Public policy positions and participation in public policy development and lobbying   | Support for public policies   |
| S06                                       | Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country                               | Support for public policies   |
| <b>Anti-Competitive Behavior</b>          |   |   |
| S07                                       | Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes                                       | Competition and marketing communication   |
| <b>Compliance</b>                         |   |   |
| S08                                       | Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations                              | Nonconformance with laws and regulations  |
| <b>Involuntary resettlement</b>           |   |   |
| OG12                                      | Operations where involuntary resettlement took place, the number of households resettled in each and how their livelihoods were affected in the process | Relations with communities  |
| <b>Asset Integrity and Process Safety</b> |   |   |
| OG13                                      | Number of process safety events, by business activity   | Accidents and diseases  |
| <b>Product Responsibility</b>             |   |   |
|   | Disclosure on Management Approach   | Product Liability<br>Competition and marketing communication  |

Essential Indicators

Additional Indicators

| Indicator                           | Description   | Section  |
|-------------------------------------|---|--|
| <b>Customer Health and Safety</b>   |   |  |
| PR1                                 | Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures | Product Liability  |
| PR2                                 | Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes           | Fines  |
| <b>Product and Service Labeling</b> |   |  |
| PR3                                 | Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements  | Labeling procedures  |
| PR4                                 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes   | Labeling procedures  |
| PR5                                 | Practices related to customer satisfaction, including results of surveys measuring customer satisfaction  | Relationship programs                                      |
| <b>Marketing Communication</b>      |   |  |
| PR6                                 | Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship   | Product quality<br>Competition and marketing communication |
| PR7                                 | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes           | Competition and marketing communication                    |
| <b>Customer Privacy</b>             |   |  |
| PR8                                 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data   | Customer and consumer satisfaction                         |
| <b>Compliance</b>                   |   |  |
| PR9                                 | Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services   | Fines  |
| <b>Fossil fuel substitutes</b>      |   |  |
| OG14                                | Volume of biofuels produced and purchased meeting sustainability criteria   | Biofuels   |

Essential Indicators

Additional Indicators

# Policies and Guidelines

## HEALTH, SAFETY AND ENVIRONMENT (HSE) POLICY AND GUIDELINES

- ▶ Educate, train and commit workers to the HSE issues, getting suppliers, communities, competent bodies, worker representative entities and other stakeholders involved;
- ▶ Promote reporting and investigation of HSE issues, and consider HSE performance into consequence and recognition systems;
- ▶ Promote health, the protection of human life and the environment, through risk identification, control and monitoring, bringing safety procedures into line with the best international practices and maintain a permanent state of readiness for emergencies;
- ▶ Ensure the sustainability of projects, undertaking and products over their life cycle, considering the impacts and benefits from an economic, environmental and social viewpoint;
- ▶ Consider the ecoefficiency of operations, minimizing the adverse impacts inherent in the activities of the industry.

### 1. LEADERSHIP AND ACCOUNTABILITY

By integrating health, safety and environment into our corporate strategy, Petrobras confirms the commitment of all employees and contractors to excellence in these areas.

### 2. REGULATORY COMPLIANCE

The company's activities shall comply with the current health, safety and environment legislation.

### 3. RISK EVALUATION AND MANAGEMENT

Risks inherent to the company's activities shall be identified, evaluated and managed to prevent accidents and/or ensure the minimization of their effects.

### 4. NEW PROJECTS

New projects shall be in compliance with the legislation and incorporate the best health, safety and environment practices during their entire life cycle.

### 5. OPERATION AND MAINTENANCE

The company's operations shall be carried out according to established procedures and using adequate facilities and equipment, inspected and fit to meet health, safety and environment requirements;

### 6. MANAGEMENT OF CHANGE

Temporary or permanent changes shall be evaluated in order to eliminate and/or minimize implementation risks.

### 7. ACQUISITION OF GOODS AND SERVICES

Contractors', suppliers' and partners' health, safety and environment performance shall be consistent with the Petrobras' System.

## 8. TRAINING, EDUCATION, AND AWARENESS

Training, education and awareness shall be continuously promoted in order to reinforce the workforce's commitment to health, safety and environment performance.

## 9. INFORMATION MANAGEMENT

Information and knowledge regarding health, safety and environment shall be accurate, updated and documented in order to facilitate its consultation and use.

## 10. COMMUNICATIONS

Information concerning health, safety and the environment shall be reported clearly, objectively and promptly in order to produce expected effects.

## 11. CONTINGENCY

Emergency scenarios shall be predicted, and emergency must be responded to promptly and efficiently reduce their impacts.

## 12. COMMUNITY RELATIONS

The company shall care for the safety of the communities where it operates, and shall keep the communities informed of impacts and/or risks eventually caused by its activities.

## 13. ACCIDENT AND INCIDENT ANALYSIS

Accidents and incidents caused by the company's activities shall be reviewed, investigated and documented to prevent their recurrence and/or to ensure the minimization of their effects.

## 14. PRODUCT STEWARDSHIP

The company shall take care of all health, safety and environment aspects of its products, from their origin to final destination, as well as be committee to continuously reduce potential impacts its products may cause.

## 15. ASSESSMENT AND CONTINUOUSLY IMPROVEMENT

Assurance of health, safety and environmental performance shall be promoted at all levels of the company, in order to ensure improvements in these areas.

## HUMAN RESOURCE POLICY

The Human Resource (HR) Policies and Guidelines, set pursuant to Petrobras' vision and mission, govern the HR Function within scope of the company.

1. Attract, develop, train and retain people, investing in their talent and improving their technical and managerial competencies, meeting the market's dynamic needs and seeking to sustain competitive excellence.
2. Ensure the appropriate staff for the business objectives and have competitive compensation practices compared to the market.
3. Promote management practices and processes that lead to satisfaction at work and to all of its employees' commitment with Petrobras System's goals and ethical principles.
4. Inspire a unique, humanized business culture, one that respects local values, encourages knowledge consolidation and exchange, and prioritizes the results achieved by both teams and individuals.

5. Encourage and acknowledge the workers' citizenship and support initiatives connected with Petrobras System's social responsibility.

6. Maintain a permanent negotiation process to build solutions with the employees' labor union.

7. Adjust the outsourcing practices, making them compatible with the HR, Knowledge Management, HSE and Information Security policies regarding Petrobras System's business and activities.

## **SOCIAL RESPONSIBILITY POLICY**

To Petrobras, social responsibility is a mechanism for the integrated, ethical, and transparent management of its business and activities and of its relationships with all of its stakeholders, driving human rights and citizenship, respecting human and cultural diversity, not allowing discrimination, degrading work, child and compulsory labor and contributing to sustainable development and to reduce social inequality.

### **1. CORPORATE PERFORMANCE**

Make sure Petrobras System's corporate governance is committed to ethics and transparency in its relationship with its stakeholders.

### **2. MANAGEMENT**

Ensure integrated social responsibility management at the Petrobras System.

### **3. SUSTAINABLE DEVELOPMENT**

Carry Petrobras System's business and activities out with social responsibility, implementing its commitments pursuant to the principles set forth by the UN's Global Compact and contributing to sustainable development.

### **4. HUMAN RIGHTS**

Respect and support internationally-acknowledged human rights, guiding Petrobras System's actions based on the promotion of the principles of decent work and non-discrimination.

### **5. DIVERSITY**

Respect the human and cultural diversity of its workforce and of the countries where it has operations.

### **6. LABOR PRINCIPLES**

Support the eradication of child, slave, and degrading work in Petrobras System's productive chain.

### **7. SUSTAINABLE SOCIAL INVESTMENT**

Seek sustainability for social investments for a worthy, productive insertion of the communities.

### **8. WORKFORCE COMMITMENT**

Commit the workforce to Petrobras System's Social Responsibility Policy.



# Glossary

## **ADR (American Depositary Receipts)**

Tradable certificates in the United States that represent one or more shares of a foreign company. A North American depository bank issues ADRs against the deposit of the underlying shares kept by a custodian in the origin country of the shares.

## **Agroecological zoning**

Technical and scientific tool to find the most appropriate spatial distribution for agricultural crops and their management given a territory's environmental characteristics.

## **AVK**

Aviation kerosene.

## **Barrel of oil equivalent (boe)**

Unit normally used to express volumes of liquids and natural gas in the same metric (barrels). A cubic meter of Brazilian natural gas is approximately 0.00629 barrel of oil equivalent. There are different rates for each composition of natural gas and oil. The term boe means barrels of oil equivalent per day.

## **Biodiesel**

Alternative fuel to diesel, renewable and biodegradable, derived from chemical reaction of animal or vegetable origin oils with alcohol in the presence of a catalyst (reaction known as transesterification). May also be obtained by esterification and cracking processes.

## **Biopolymers**

Materials structurally classified as polysaccharides, polyesters or polyamides, whose main raw material is a carbon source.

## **Block**

Small part of a sedimentary basin in which oil and natural gas exploration and production takes place.

## **Bpd**

Barrel per day.

## **Brent**

North Sea oil blend from the Brent and Ninian oil systems, with 39.4° API gravity and 0.34% sulfur content.

### **Carbonate reservoirs**

Predominantly carbonate rocks originating from biological and biochemical processes, their porosity and permeability enabling storage of oil, gas and water.

### **Carbon fixation**

Storing atmospheric CO<sub>2</sub> from biomass by planting or reforestation, to absorb gas for photosynthesis. During the latter's growth, part of emissions are offset.

### **Closing cycle**

Conversion of single-cycle thermoelectric power plant to combined cycle. Combined cycle plants operate at higher levels of thermal efficiency than simple-cycle plants.

### **Cogeneration**

Systems that produce simultaneously sequenced electricity and thermal energy from the combustion of fuels such as petroleum, natural gas, coal, and biomass.

### **Combined cycle thermal power plant**

Plant generating electricity by combining gas and steam turbine in a single plant, thus generating more electricity by burning the same amount of fuel.

### **Condensate**

Liquid natural gas obtained in the process of normal field separation, which is maintained in the liquid phase under normal conditions of pressure and temperature.

### **Conversion**

Cubic meter: 1 m<sup>3</sup> = 1,000 liters = 6.28994113 barrels

Barrel: 1 b = 0.158984 m<sup>3</sup> = 158.984 liters.

### **Corporate governance**

Relationship between economic agents (shareholders, executives, directors) with ability to influence/determine the course and performance of corporations. Good corporate governance assures shareholders equity, transparency, and accountability.

### **Deep water**

Areas with water depths of 300 - 1,500 meters. In general, the limits mentioned result from aspects associated with the state-of-the-art technology required for stationary drilling or production units, and limits for human diving.

### **Depletion**

Reduced amount of investment required to exploit resources calculated by the units-produced method.

## **Derivative**

Contract or security whose value is related to price variations of an asset, hedging instrument.

## **Dow Jones Sustainability Index (DJSI)**

Reflects the return on a theoretical portfolio composed of stocks of companies listed on the New York Stock Exchange posting the best performance on all corporate sustainability metrics. Seen as the world's top sustainability index, used as an analytic parameter by socially and environmentally responsible investors.

## **Downstream**

Refining crude oil, natural gas processing, transportation and marketing / distribution of oil derivative products.

## **E&P**

Exploration and production of oil and natural gas.

## **Extended Well Test (EWT)**

Well testing with total flow time of over 72 hours conducted during exploration phase for the sole purpose of obtaining data and information to assess reservoirs. Hydrocarbons produced during EWT are also subject to royalties.

## **Field**

Area producing oil or natural gas from one or more continuous reservoirs at varying depths, including production facilities and equipment.

## **FPSO (Floating, Production, Storage and Offloading)**

Floating unit for oil production, storage and transfer, its structure is based on a ship.

## **Fuel oil**

Heavier fractions from atmospheric distillation of petroleum. Widely used as fuel for industrial boilers, furnaces, etc.

## **Hedge**

Position or combination of financial positions used to reduce some kind of risk.

## **Ibovespa**

Bovespa Index. Price variation indicator for a theoretical portfolio of shares periodically defined by the São Paulo stock exchange.

## **Jack-up rig**

Self-elevating drill rig.

### **Joint venture**

Association of companies, enduring or otherwise, for profit, to exploit given business(es) while both retain their own legal personality.

### **Liquefied natural gas (LNG)**

Natural gas cooled to temperatures below  $-160^{\circ}\text{C}$  for transfer and storage as a liquid.

### **Liquefied petroleum gas (LPG)**

Mixture of hydrocarbons with high-pressure vapor obtained from special natural gas processing units kept in liquid state in special storage conditions on the surface.

### **Market cap**

Company valued at its stock price on the market, using the formula: Share price x number of shares.

### **Master Sales Agreement (MSA)**

Non-binding "umbrella" contracts signed with potential LNG suppliers or purchasers. These extensive contracts set rules for situations that may occur in the course of certain LNG purchase or sale deals.

### **Membrane bioreactor**

Hybrid device combining a biological - usually aerobic - process for degradation of organic contaminants in water or effluents, with a physical membrane filtration process.

### **Naphtha**

Petroleum derivative used mainly as a raw material for the petrochemical industry to produce ethylene and propylene, and other liquid fractions such as benzene, toluene and xylenes.

### **National Interconnected System (SIN)**

Structure for production and transmission of electricity in Brazil, consisting of companies in the South, Southeast, Midwest, Northeast and part of the North operating on a coordinated and centralized basis to obtain gains from interaction between different agents. Brazil has a "hydro-thermo" system, but generation is predominantly hydroelectric.

### **National Petroleum, Natural Gas and Biofuels Agency (ANP)**

Brazil's oil and natural gas industry regulator.

### **Natural gas**

Any hydrocarbon or mixture of hydrocarbons that remain in gaseous state under normal atmospheric conditions, extracted directly from oil or gas reserves, including wet, dry, residual and rare gases.

### **Phytoremediation**

Low-cost technology involving the use of plants, their associated microbiota and agronomic practices for removal, immobilization or transformation of contaminants into molecules less harmful for ecosystems.

### **Oil**

The portion of petroleum in the liquid phase under the original reservoir conditions that remains liquid under surface conditions of temperature and pressure.

### **ONS**

Local acronym for National Electric System Operator.

### **OPEC**

Organization of Petroleum Exporting Countries. Angola, Saudi Arabia, Algeria, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, United Arab Emirates, and Venezuela.

### **PAC**

Local acronym for Growth Acceleration Program.

### **PAD**

Local acronym for Discovery and Valuation Plans.

### **Petroleum**

All and any liquid hydrocarbon in its natural state, such as crude oil and condensate.

### **Plansal**

Local acronym for Master Plan for Development of Pre-Salt Complex in the Santos basin.

### **Proag**

Local acronym for Natural Gas Use Optimization Program.

### **Proef**

Local acronym for Increase Operational Efficiency Program.



### **Promef**

Local acronym for Fleet Modernization and Expansion Program.

### **Proven reserves**

Oil and/or natural gas reserves based on analysis of geological and engineering data, estimated to be recoverable from discovered and valued reserves with a high degree of certainty, with the estimate assuming current economic conditions, generally feasible operating methods, and regulations established by Brazilian oil and tax laws.

### **Regasification**

Physical process in which rising temperature of gas in the liquid phase (liquid natural gas) returns it to the original gas state.

### **Reserves**

Discovered oil and/or natural gas resources that are commercially recoverable as of a given date.

### **Reserve Replacement Ratio (RRR)**

Relationship between volume of reserves incorporated in the year and total volume produced in the same year.

### **Roadshow**

Presentation or event held to publicize the company or its products in other marketplaces.

### **Royalties**

Amount paid to the holder or owner or a territory, natural resource, product, brand, product, patent, production process, or original work, for the rights of exploitation, use, distribution, or commercialization of said product or technology.

### **SEC**

Securities and Exchange Commission. Regulator and watchdog of the US capital market equivalent to the Securities Commission (CVM) in Brazil.

### **Second-generation biofuel**

Fuel produced using biomass waste from other industrial processes, especially sugarcane bagasse.

### **Seismic**

Technique to obtain geological data by capturing sonar signals reflected from strata underground.

**Single cycle thermoelectric plant**

Generating plant using gas or steam driven turbine by burning fuels such as petroleum, natural gas, coal or biomass.

**SPE**

Society of Petroleum Engineers.

**Swap**

Contract between two parties to exchange streams of payments. A typical oil swap consists of a contract in which one party buys at a certain fixed price and sells at a future floating price.

**Ultra-deepwater**

Areas with water depths of more than 1,500 meters.

**UTE**

Thermoelectric plant.

**Washout**

Slope collapse caused by deepening flow troughs and erosion of banks of watercourses.

# Management

## EXECUTIVE BOARD

Maria das Graças Silva Foster

**CEO**

Almir Guilherme Barbassa

**CFO and Investor Relations Officer**

José Miranda Formigli Filho

**Exploration and Production Director**

José Carlos Cosenza

**Downstream Director**

José Alcides Santoro Martins

**Gas & Power Director**

José Eduardo de Barros Dutra

**Corporate and Services Director**

José Antonio de Figueiredo

**Engineering, Technology  
and Materials Director**

## BOARD OF DIRECTORS

Guido Mantega

**CEO**

Maria das Graças Silva Foster

Miriam Aparecida Belchior

Francisco Roberto de Albuquerque

Josué Christiano Gomes da Silva

Jorge Gerdau Johannpeter

Márcio Pereira Zimmermann

Luciano Galvão Coutinho

Sergio Franklin Quintella

Sílvio Sinedino Pinheiro

## AUDIT COMMITTEE

### Full members

Marisete Fátima Dadald Pereira

César Acosta Rech

Nelson Rocha Augusto

Maria Lúcia de Oliveira Falcón

Paulo José dos Reis Souza

# Recognition, awards and certificates

## **WORLD'S 100 MOST ADMIRABLE COMPANIES**

We were voted one of world's 100 most respected companies for the second consecutive year. Petrobras was the only Latin American company ranked among the top 100 global corporations for best reputation and the only energy company, placed 98<sup>th</sup> place in a survey conducted by the Reputation Institute.

## **"FAVORITE COMPANIES TO WORK FOR IN BRAZIL" RANKING**

For the fifth time, we led the ranking of favorite companies to work for in Brazil.

## **YOUNG PEOPLE'S DREAM COMPANY**

For the sixth time, we were elected "young people's dream company" in a survey conducted by Cia de Talentos in partnership with research firm Nextview People.

## **EXECUTIVES' DREAM COMPANY**

We were first in the ranking reported by a survey of 5,303 Brazilian executives conducted by DMRH. The sample consisted of professionals who had consolidated their careers.

## **ÉPOCA NEGÓCIOS 100 AWARD BRAZIL'S MOST PRESTIGIOUS COMPANIES**

Petrobras was voted Brazil's third most prestigious company. *Época* business magazine recognizes the top 100 companies with the strongest corporate images for Brazilian consumers. We were also top of the "Chemicals and Petrochemicals industry".

## **TRANSPARENCY TROPHY**

For the 12<sup>th</sup> consecutive year, we were named one of Brazil's most transparent companies. The award is made by the National Association of Finance, Management and Accounting Executives (Anefac), the Institute of Accounting, Actuarial and Financial Studies (Fipecafi) and Serasa Experian.

## **DCI MOST ADMIRABLE COMPANIES AWARD**

For the ninth consecutive year, we took the Most Admired Company award and were winners in the Oil and Most Admired State-Capital Company made by the newspaper *Diário do Comércio e Indústria*.

### **FOLHA TOP OF MIND AWARD**

For the tenth consecutive year, Petrobras Distribuidora was the brand most remembered by Brazilian consumers in the “Fuel” category.

### **2012 BRAZIL ENVIRONMENTAL AWARD**

Second-generation ethanol technology introduced by Petrobras Biocombustível took the “Environmental Innovation” award. Sponsored by the American Chamber of Commerce, this was the eighth time the award was given.

### **AMPRO GLOBES AWARDS**

The Gold Trophy in the “Best Sales Team Incentive Campaign” category went to the Petrobras Distribuidora service station chain for its “Petrobras Challenge” incentive program.

### **BRAZIL'S MOST ADMIRED COMPANIES**

Organized by Instituto Oficina Sophia and sponsored by *Carta Capital* magazine, this ranking placed us first among “Most Admired Brazilian Companies in Latin America”. We were recognized in two other categories - “10 Most Admired Companies in Brazil” and “10 Most Admired Leaders” - and our Petrobras Distribuidora subsidiary was voted best company in the “Fuel or Oil Derivative Product Distributors” segment.

### **2012 BRAZIL INTANGIBLES AWARD**

Winner in the “Infrastructure” sector and the “Integrated Strategic Management of Information Assets” special category. In selecting winners from among the largest companies in Brazil, the award’s analysts used a methodology that takes an organization’s market value as equity plus intangible capital.

### **LEADERS OF BRAZIL AWARD**

We were honored as a leader of Brazil’s oil and gas industry by the Business Leaders Group (LIDE), which also honored our president, Maria das Graças Silva Foster.

### **TOP CONSUMER AWARD**

For the third consecutive year, Brazil’s National Institute for Consumer and Citizen Education (INEC) recognized our LPG company Liquigás for excellence in customer relations. Liquigás was the only LPG industry organization to take an award.

### **IEL INTERNSHIP AWARD**

We received the “Major Company” category award, given by Instituto Euvaldo Lodi (IEL), an institution attached to the National Confederation of Industry (CNI), to recognize Brazilian companies for structured internship or trainee programs spreading entrepreneurship, innovation and social responsibility culture among students.



## **BRANDZ TOP 50 – MOST VALUABLE LATIN AMERICAN BRANDS 2012**

We were rated Latin America's most valuable brand in first place in the BrandZ Ranking of the "50 Most Valuable Brands in Latin America", a new survey conducted by WPP and Millward Brown. We are the best positioned Brazilian company, with US\$ 10.5 billion brand value.

## **BRAZIL'S MOST VALUABLE BRAND**

For the third consecutive year, we were first in the ranking of Brazil's most valuable brands, with US\$ 19.7 billion. This ranking is compiled by consultants BrandAnalytics and Britain's Millward Brown.

## **BRAZILIAN MOST VALUABLE BRAND 2012**

We were voted the fourth most valuable Brazilian brand of 2012. This was the fifth time we were in the top ten of the Interbrand ranking.

## **FINANCIAL TIMES BOWEN CRAGGS 2012**

Our site was among the best for global companies rated by the Financial Times, which placed it 41<sup>st</sup> overall. In relation to services for specific segments, we were 13<sup>th</sup> for investors and 20<sup>th</sup> for the press. Among Brazilian companies, we were best placed overall.

## **ABERJE AWARD**

We won ABERJE Brazil's "Digital Media" category award. We also won several categories in its regional awards.

## **COMPANY THAT BEST COMMUNICATES WITH JOURNALISTS**

Deloitte partnered Comuniqué-se to designate us the "company that best communicates with journalists" as a result of their survey among members of the press. In addition to this first place among the most efficient, we took second position among the companies most admired by journalists.

## **2012 ENTREPRENEUR FRIEND OF SPORTS AWARD**

For the second consecutive year, we took first place in the "Best Friend of Sport Education" category for our investment in Petrobras Sports Reference Centers (Bahia, Amazonas and Rio de Janeiro). This award is given by the Ministry of Sports to recognize major Brazilian companies supporting sport through the Federal Law for Sport Incentives.

## **GENDER EQUITY SEAL**

Petrobras Mexico was awarded the seal by the National Women's Institute.

## **BEST HYDROCARBONS COMPANY**

Petrobras Bolivia won this award on a corporate reputation ranking compiled by Captura Consulting.

## BEST COMPANIES FOR DEVELOPING LEADERSHIP

Petrobras Peru was recognized as one of Latin America's top ten companies for developing leadership by international HR consultant Hay Group's Centro de Investigación y Desarrollo.

CEO Maria das Graças Silva Foster was elected one of the hundred most influential people in the world by *Time* magazine. This annual ranking is divided into categories for artists, researchers, entrepreneurs, political activists, and heads of state. Ms Silva Foster was also named Woman Entrepreneur of the Year by *IstoÉ Dinheiro* magazine, recognizing the outstanding executives of 2012, and was named SPE / UFRJ - Personality of the Year by the Society of Petroleum Engineers and Universidade Federal do Rio de Janeiro.

Other awards received by Ms Silva Foster: the Legislative Medal of Merit, the highest honor awarded by Brazil's House of Representatives for services to society in science, politics, culture, or religion; the Pedro Ernesto medal, Rio de Janeiro's principal honor for members of Brazilian society who are outstanding in their fields; the 2012 Personality of the Year award made by the Brazilian Machinery and Equipment Association (Abimaq) for persons contributing to the development, strengthening and competitiveness of the nation's machinery and equipment industry; the 2012 Engineer of the Year medal from the Minas Gerais Society of Engineers.

Pre-salt executive manager Carlos Tadeu Fraga took the OMAE Conference Industry Achievement award, for leadership and articulation with universities on behalf of our Cenpes R&D center named for Leopoldo Américo Miguez de Mello. Under his management, Cenpes leveraged Thematic Networks in 2006 as a strategy for our R&D resources.

Our Exploration geologists Raphael Hatushika and Claudia Lima de Queiroz received the Guido Bonarelli award from the European Association of Geoscientists and Engineers in Copenhagen. Their research examined the potential of fractured reservoirs formed by rocks presenting natural fracturing, which may be applied to exploration and production.

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